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BUDGET PROCESS REFORM

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Budget Process Reform, 103-2 Hearin...

HEARINGS
BEFORE THE
LEGISLATION AND NATIONAL
SECURITY SUBCOMMITTEE
OF THE
COMMITTEE ON
GOVERNMENT OPERATIONS
HOUSE OF REPRESENTATIVES
ONE HUNDRED THIRD CONGRESS
SECOND SESSION

JUNE 29; AND AUGUST 4, 1994

Printed for the use of the Committee on Government Operations



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BUDGET PROCESS REFORM

WEDNESDAY, JUNE 29, 1994

HOUSE OF REPRESENTATIVES,
LEGISLATION AND NATIONAL SECURITY SUBCOMMITTEE
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 11:05 a.m., in room 2154, Rayburn House Office Building, Hon. John Conyers, Jr. (chairman of the subcommittee) presiding.

Present: Representatives John Conyers, Jr., Carolyn B. Maloney, Al McCandless, and William F. Clinger, Jr.

Also present: Representatives Henry A. Waxman, John M. Spratt, Jr., and William H. Zeliff, Jr.

Legislation and National Security Subcommittee staff present: James C. Turner, staff director.

Full committee staff present: Julian Epstein, staff director; Frank Clemente, senior policy advisor; Kevin H. Cronin, associate counsel; Mechita O. Crawford, staff assistant; and Monty Tripp, minority professional staff.

OPENING STATEMENT OF CHAIRMAN CONYERS

Mr. CONYERS. The Subcommittee on Legislation and National Security will come to order.

Today is the beginning of a series of hearings on budget process reform proposals before the committee, with a number of Members seeking to testify. We have our distinguished chairman of the Budget Committee here already, and so we will make some opening statements and proceed as quickly as we can.

The committee will consider the creation of a deficit "lockbox" in which discretionary caps are automatically lowered by the amount of an amendment to reduce spending in a tax or appropriation bill.

Other options address spending controls for entitlement programs, the eliminating of the budget baseline in which program costs are automatically adjusted to reflect inflation and limiting the authority for emergency spending above the discretionary cap spending level.

Last year, Congress enacted an approximately \$500 billion deficit reduction package through budget reconciliation. The projected budget deficit for 1995 is expected to fall to about \$170 billion, over \$100 billion more in deficit reduction than the level forecast for 1995 when the President took office. If the 1994-1995 forecasts hold, the deficit will decline 3 years in a row for the first time since the White House was occupied by Harry Truman.

The deficit, as measured as a percentage of the Nation's gross domestic product, has decreased under the present administration. The fiscal year 1993 deficit was estimated to be 4.3 percent of GDP, the projected fiscal year 1995 figure is expected to decline to 2.6 percent GDP. The administration appears to be proceeding toward meeting their commitment to cut the deficit in half as a percentage of GDP by the end of the Clinton term.

In August, the CBO will issue its revised deficit forecast for fiscal year 1994, and current economic data suggests that Federal revenues are exceeding previous projections, while entitlement spending has dropped below forecast levels. Consequently, the fiscal year 1994 deficit, which was projected to be \$291 billion when President Clinton was inaugurated, may be less than \$200 billion. This CBO update suggests a significant improvement in the deficit outlook for future years.

Currently, the budget deficit is governed by the Budget Enforcement Act of 1990, which sets declining spending caps for discretionary spending and a pay-as-you-go enforcement scheme for entitlement spending and revenues. Those opposed to creating additional budget process reforms argue that the deficit reduction is a result of tough decisions about spending priorities, rather than budget process changes.

It is argued that process reforms are gimmicks which don't work, are subject to manipulation, allow Congress to put the Federal budget on automatic pilot, and abdicate responsibility for difficult and unpopular decisions to cut spending. They point to the failures of the Gramm-Rudman laws to control spending and the success of President Clinton's budget program as evidence of this argument.

However, proponents of additional reforms argue that, while the budget process reforms in and of themselves are often imperfect and no substitute for decisionmaking, they create the overall discipline needed to force the difficult decisionmaking process to begin. As evidence, they point to the Budget Enforcement Act, arguing that it created the context and deficit reduction goals around which the budget debate revolved.

Among the key budget process reforms that will be considered are the following: H.R. 3266 and H. Res. 407, the A-to-Z spending cut plans offered by our colleagues, Mr. Andrews and Mr. Zelfiff, which would provide a minimum of 56 hours' debate in which Members could offer amendments to cut spending from appropriations bills or entitlement programs. The legislation directs OMB to automatically reduce the discretionary spending cap by an amount equal to any cuts approved by an amendment.

Our colleagues, Mr. Stenholm, Mr. Penny, and Mr. Kasich, have introduced H.R. 4434, the Common Cents Budget Reform Act, which has four major components—baseline budget reform, expedited rescission, adjusting discretionary caps to reflect cuts in appropriation bills, and to limit the emergency designation.

Other legislative proposals include the Comprehensive Budget Process Reform Act, H.R. 1138, introduced by Representative Orton, which requires a balanced budget enforced through sequestration, unless Congress issues budget reconciliation instructions to achieve the overage or waive the requirement by affirmative vote.

It includes additional budget process proposals creating a separate operating and capital spending budget, instituting a biennial budget cycle, automatically sunseting legislation not reauthorized within 5 years, creating expedited rescission authority for the President, instituting performance-based budgeting and requiring agencies to submit to OMB options for agency spending, which includes a 10 percent reduction for the prior year.

The Lock Box Act, H.R. 4057 introduced by our colleagues Mr. Schumer, Brewster, Crapo, Edwards, and others would permit Members offering amendments to reduce spending and designate that the discretionary cap spending levels should be reduced by an amount equal to any approved amendment.

The gentleman from California, Mr. Cox, has introduced the Budget Process Reform Act, H.R. 2929, which would require a joint budget resolution which must be signed into law, prohibit baseline adjustments, require the support of two-thirds of the Members of both Houses to spend in excess of the budget levels, and permit the President to rescind spending in excess of the budgeted level. It would convert entitlements into discretionary programs by requiring that all appropriations, with the exception of Social Security and debt interest, be for fixed sums and prohibit appropriations for such sums as are necessary.

And finally we have H.R. 4189 and H.R. 4457; which address the treatment of emergency spending. Mr. Castle's proposal would create a budget reserve account to suspend the current emergency exception for funding natural disasters and national security emergencies. H.R. 4457 introduced by Mr. Johnson, would create a look-back provision in which emergency supplemental bills that reach the discretionary spending cap result in automatic reductions in the discretionary cap for the next fiscal year.

These are incredibly complex and very significant proposals for change in the budgeting process, and I am happy that our Budget Committee chairperson and the chairman of the Appropriations Committee are here.

[The prepared statement of Mr. Conyers follows:]

OPENING STATEMENT OF JOHN CONYERS, JR.
CHAIRMAN

LEGISLATION AND NATIONAL SECURITY SUBCOMMITTEE,
COMMITTEE ON GOVERNMENT OPERATIONS

HEARING ON BUDGET PROCESS REFORM

JUNE 29, 1994

Good morning. Today the Committee begins the first in a series of hearings examining proposals to reform the Federal budget process.

At the outset, I want to stress the importance of both deficit reduction and a sound budget process. As we pursue deficit reduction, we must also allow the President and the Congress enough flexibility to make the wisest spending choices for the American people. This is the careful balance that we on Government Operations should remember as we consider budget process reform proposals.

Congress now operates through a tightly controlled budget process intended to reduce the federal deficit. This process limits direct government expenditures through so-called "pay-as-you-go" requirements, and it limits discretionary expenditures through annual spending caps.

These mechanisms have not come about easily since the passage of the Budget Act in 1974. In the mid-1980s both ends of Pennsylvania Avenue fought over the Gramm-Rudman-Hollings budget law. In the end we had little, if any, deficit reduction.

In 1990, in a bipartisan vote, we created a new procedure -- the Budget Enforcement Act. This was modified and extended for another five years by President Clinton and the Democratic members of this Congress who voted for the budget in 1993. As we consider further and more sweeping changes in this process, it's wise to review how well the BEA is working.

Last year, Congress enacted a \$500 billion deficit reduction

package through reconciliation. Our strengthened economy and these budget cuts will reduce the deficit in Fiscal Year 1995 to about \$170 billion, over \$100 billion less than the deficit level projected for 1995 when President Clinton first took office. This improvement represents a 40% decrease in the projected deficit. If the 1994-95 forecasts hold, the deficit will decline for three years in a row, the first time that's happened since Harry Truman held the White House.

Let's look at it another way. The deficit, as measured as a percentage of our nation's economy, has decreased substantially under President Clinton. In 1983 the deficit peaked at 6.3% of our nation's Gross Domestic Product (GDP), the highest level since World War II. The projected FY 1995 figure is expected to drop to roughly 2.4% of GDP, the lowest level since 1979 and a decrease of nearly two-thirds from the 1983 peak. The President appears to be well on his way to

meeting his promise to cut the deficit in half, as a percentage of GDP, by the end of his term.

Such substantial levels of deficit reduction have not been painless. All of us have programs that we cherish that have taken big hits -- Medicare, the Superconducting Supercollider, student loans, major weapons systems.

Although there has been significant progress, some Members believe that changes are needed in the budget process to reduce the deficit further. Legislative proposals range from statutory entitlement spending caps, to creating a so-called "deficit lock-box," to convening a special House session to consider spending cuts on an ad hoc basis, the so-called A to Z plan.

These Subcommittee hearings should help Members separate budgetary fact from fiction. Here is where we ask the tough

questions:

Is there a procedural substitute for political will?

Or, do these proposals offer meaningful reform and a real opportunity to control spending?

For the last several months, the House leadership has been discussing many of these options with the various proponents. The time has now come to give them the proper scrutiny envisioned by the legislative process.

Besides the distinguished list of Member witnesses for today's hearing, in July we will receive testimony from the Congressional Budget Office, the General Accounting Office, academia and former budget officials from across the political spectrum.

I intend these hearings to provide a thorough review of the full

range of issues. I also hope these hearings can address the concerns and frustrations Members have expressed through the discharge process.

Mr. CONYERS. I will now yield to Mr. McCandless of California for an opening comment.

Mr. MCCANDLESS. Thank you, Mr. Chairman. I would like to thank you for granting us this opportunity to initiate a serious, bipartisan and badly needed discussion of our Federal spending habits, and the overwhelming importance of responsible fiscal control. Similarly, I would like to thank Congressmen Andrews and Zelif, as well as Representatives Stenholm, Deal, and Orton, for forcing this issue out into the open, and for compelling this Congress to confront our national spending priorities.

On the day I arrived in Washington, our national debt stood at \$1.37 trillion. Today, just 12 years later, it has tripled to \$4.6 trillion, and I might add without serious budget process and spending reforms, that debt will stand at more than \$7 trillion in just 10 years.

Interest on the debt alone will consume \$345 billion, or 16 percent of our Federal tax dollars in the year 2004. That is nearly \$350 billion which will be spent without funding one single program or providing one single service to the American taxpayers.

Clearly, we are failing to meet our responsibilities in dealing with the undeniable and overwhelming need for serious fiscal restraint and true budget reforms. Both the A-to-Z spending cuts plan and the budget process reforms we are considering today will allow us to change that. A to Z will force Members to critically reassess our national spending priorities to determine what is and what is not a vital and unassignable role of our Federal Government.

Similarly, in adopting strong and meaningful budget process reforms, such as a true line-item veto, emergency supplemental spending restraints and the elimination of baseline budgeting, we can cultivate a process designed to impose order and restraint where weak rules have failed.

Mr. Chairman, I will be leaving Congress at the end this year, and I would prefer to go knowing that I have done all I can to reverse our downward spiral. I look to the proposals before us as the best and perhaps the only way of bringing our Federal spending habits under control.

And I look forward to working with our witnesses in enacting strong and meaningful fiscal reforms. Thank you, Mr. Chairman.

Mr. CONYERS. Thank you, Mr. McCandless. We have enjoyed your tenure and service and contributions to this committee, and you may be called into your highest service in processing these last five bills that are in front of us. If you can help us through this very complex maze, we will be in your debt. And thank you again.

The Chair recognizes the gentleman from California, Mr. Waxman.

Mr. WAXMAN. Thank you very much, Mr. Chairman. I find it ironic that we have before us today a whole set of proposals to further reform the budget process, including proposals for deep and automatic cuts in entitlement programs.

Less than 1 year ago, we enacted a budget reconciliation bill that made major reductions in the Federal deficit. As a result of OBRA 93, the deficit is now lower than anyone anticipated, the economy has responded to the reduction in the Federal deficit, and many

economists feel that further drastic reductions in Federal spending at this point would be unwise. In short, we have a budget process that is working reasonably well to achieve our economic objectives.

What I am worried about in these new, supposed reform proposals, especially the proposals for automatic caps on entitlement programs, is that we would end up with a different agenda than simply dealing with the budget. I fear that they are designed not to reform the budget, but to reduce the Federal Government's commitment to the income security, health security and other needs of our citizens.

I wouldn't want the slogan "budget process reform" to really mean the withdrawal of the Federal Government's commitment to meeting the basic needs of some of the most vulnerable in our society.

The budget process we now have is structured so that if we need to make changes in Medicare or Medicaid, or veterans' or other programs to achieve our economic goals, we can do so in a way that makes some sense from a policy standpoint, and does not impose questionable burdens on program beneficiaries.

Under some of these so-called reforms, we wouldn't look, we would just cut; and I hope that we reject some of these draconian ideas that are now being floated again under the mantle of reform. Some of the ideas that we have before us, I think we ought to look at seriously. But I want us to recognize that we are already under very severe restraints with the caps on our appropriated programs, and I wouldn't want us to do a lot of damage as we look at some of these proposals on the entitlement side.

Mr. CONYERS. Thank you for a very reasoned statement, Mr. Waxman.

The gentleman from Pennsylvania, Mr. Clinger.

Mr. CLINGER. Thank you very much, Mr. Chairman. I really appreciate your holding the hearing. I want to thank all of the Members who are going to be participating, and there are many of them this morning, so I am not going to take a long time.

But it is clear the need for both budget process and Federal spending reform is real, it is urgent, it is very pressing, the most pressing thing we have to deal with.

In 1992, we spent about \$290 billion more than the Federal Government raised in taxes, and our debt is now \$4.4 trillion; it is equal to 74 percent of the U.S.'s entire gross national product. It poses basically a debt of \$17,413 on every single one of our citizens, and these numbers are growing.

For a number of years, it has been fashionable to talk about eliminating waste, fraud, and abuse—it has been sort of the mantra around here—as the way of easing our debt. As the ranking Republican on your committee, Mr. Chairman, where we oversee and correct—hopefully, correct wasteful Federal practices, I know you would agree with me that reducing paperwork and reusing paper clips alone is not going to reduce the deficit.

Last year, all discretionary spending combined equaled less than 40 percent of the entire budget. We could eliminate every dollar for every discretionary program, including Head Start, environmental cleanup, jobs retraining, even zero out the entire Department of Defense, and still not even come close to eliminating our national

debt. So we are coming to a time when this country is going to be forced to reconsider our spending priorities and exactly what we want from the Federal Government.

Clearly, we have to expect it to ensure our domestic and international security; we must expect it to provide our poor citizens with a minimal safety net. We have to expect it to provide the infrastructure necessary to provide job security, and we must expect it to do so as cheaply as possible. But, you know, given these basic goals, what do we cut, how do we cut it, and what processes should we adopt to better enable us to answer these questions?

I support a balanced budget amendment, I think out of frustration as much as anything else. I think we must eliminate baseline budgeting. I finally, I am the sponsor of legislation to adopt a unified capital budget, which I think would encourage responsible budgeting while safeguarding our vital infrastructure.

I think any or all of these reforms would help our country to address the hard questions we are being forced to face, so I really look forward to this very vitally important hearing, Mr. Chairman. I commend you for holding it and look forward to the testimony.

[The prepared statement of Mr. Clinger follows:]

Opening Statement of
the Hon. William F. Clinger, Jr.
Subcommittee on Legislation and National Security
Hearing on Budget Process Reform
June 29, 1994

Thank you, Mr. Chairman. I appreciate you holding this hearing, and I'd like to start by thanking each of the Members who will be testifying today. The time, thought and effort they have put into addressing one of the most pressing problems confronting our nation will help this committee as it considers future budget legislation, and will help the House as a whole in preparing to tackle the serious task of major spending reform.

Mr. Chairman, the need for both budget process and federal spending reform is real.

In 1992, our government spent \$290 billion more than it raised in taxes. At \$4.4 trillion dollars, our national debt is equal to 74 percent of the United States' entire Gross Domestic Product (GDP) and imposes a debt of \$17,413 on every single one of our citizens. What is more, these numbers are growing.

According to the Bipartisan Commission on Entitlement and Tax Reform, in 1990, the net national debt was about \$10,000 for every man, woman and child in America. The Commission estimates that if tax and spending policies don't change, that debt will amount to \$64,000 per American by the year 2030. And there are no easy fixes.

For a number of years, it has been fashionable to talk about eliminating "waste, fraud and abuse" as the way of easing our debt. As the Ranking Republican on this committee, which oversees and corrects wasteful federal practices, I can assure you reducing paperwork and reusing paperclips alone won't eliminate the deficit.

Last year, all discretionary spending combined equaled less than 40% of the entire federal budget. We could eliminate every dollar for every discretionary program including Head Start, environmental clean-up, jobs retraining, and even zero out the entire Department of Defense, and still not eliminate our national debt.

We are reaching a time when this country will be forced to re-think our national spending priorities and consider what exactly we want from our federal government. Clearly, we must expect it to ensure our domestic and international security. We must expect it to provide our poorest citizens with a minimal safety net. We must

expect it to provide the infrastructure necessary to promote job security and ensure an effective marketplace for our goods and services. And, we must expect it to do so as cheaply as possible.

But given those very basic goals, what do we cut, and how do we cut it? What processes should we adopt to better enable us to address those questions? I am a supporter of the balanced budget constitutional amendment. I support the presidential line-item veto. I believe we must eliminate baseline budgeting. I favor the adoption of a deficit lock box. And finally, I am the sponsor of legislation to adopt a unified capital budget, which would encourage responsible budgeting while safeguarding our vital infrastructure.

I believe that each of these reforms would help our country to address the hard questions we are being forced to face, and I look forward to today's hearing as a rare opportunity to begin addressing them.

Thank you, Mr. Chairman.

Mr. CONYERS. Well, I thank you, Mr. Clinger.

You have worked as a great partner on this committee, and I think your approach to perhaps the heaviest assignment we have had this year will be very important to the outcome.

I am pleased now to recognize the gentleman from South Carolina, a member of the Budget Committee and a subcommittee chairman on Government Operations, Mr. Spratt.

Mr. SPRATT. Mr. Chairman, let me thank you very much for holding this hearing and say that I think it is wise for our committee to turn its focus to this subject matter. In the interest of time and in light of the numerous witnesses we have today, I will forgo any further statement, but I look forward to their testimony.

Mr. CONYERS. That is the briefest you have been this year, Mr. Spratt. Thank you very much.

We are delighted—we have Mr. Zeliff, the Z in the A-to-Z budget cutting bill. We are delighted to have you here on the committee. You have worked on this committee with great enthusiasm, and I know you are concerned about this subject matter. I recognize you at this time.

Mr. ZELIFF. Mr. Chairman, thank you very much. Thank you for letting me be involved with this very important subject.

I support most of the ideas that are going to be presented today, and I strongly believe that this Congress must enact serious budget process reforms before the year is out. There are press reports, including the Washington Post, that claim the leadership has agreed to allow votes on proposals for reforming the budgetary process in a desperate attempt to block passage of the A-to-Z spending cuts plan. I hope we are here today to seriously consider ways to reform our failed budget process, not simply to provide political cover for people who do not want to be held accountable.

There is a real—there is no real connection between budget process reform for the future and A-to-Z spending cuts now. The only real way to cut the deficit is to cut spending now. Our Nation has a \$4.7 trillion national debt. Budget process reforms, by themselves, cannot cure this ill.

You can see from the charts that we have passed out that the debt rises to nearly \$6.5 trillion by 1999, and we have got two charts here, in addition to the two that you passed out, with interest payments of more than a quarter of a trillion dollars in that same period of time.

Budget process reforms are an important part of the prescription for future change, but we must make sure that it does more than provide political cover. We should not consider votes on the budget process as a substitute for real votes on real spending cuts.

The purpose of the A-to-Z spending cuts plan is to permit every Member of this House to suggest some way of cutting spending. Every proposal would have a free and fair debate. Every proposal would receive an up or down vote. Perhaps we should also have—and I think it would be a good idea to have—an A-to-Z budget process reform plan, but we can deal with that at another time. Then every Member of the House could propose meaningful changes in the budget process.

While we must never lose sight of the fact that the only real way to cause real deficit reduction is through real votes on real spend-

ing cuts, the best budget reform this House could get is a free and open process that allows every Member of the U.S. House of Representatives to propose spending cuts uncensored by the leadership. Let the proposals be debated. Follow the debate with a roll call vote. It is called representative democracy, and it gives us an accountability and responsibility from A to Z.

Mr. Chairman, I heard Mr. Waxman talk about damage, and certainly the way I look at the two charts that you all passed out, you look at these charts and look at the trends and certainly the national debt chart here, and then look at the trend with a downward trend in terms of discretionary moneys and the increased trend of entitlements. It doesn't take too long in the process to realize there is a lot of damage being done as we sit by. And I think that as a businessman, I look at damage, you can control that damage and make sure that it doesn't afflict anything more serious that is being done by the kind of plan that A to Z would present.

I look at another idea from a business point of view, if we took our proposal to the bank with the idea that our interest rates are going up in a line like this and our debt is going up like this, we certainly would not be able to continue to borrow money.

I think it is time that we get ourselves in a position that we can be strong in the future, and I hope that by the end of the day, we will have some good, concrete ideas on how to accomplish that.

Thank you, Mr. Chairman.

Mr. CONYERS. Bill Zeliff, we know about your commitment to this subject matter, and I know that you will keep an open mind in terms of the discussion that will follow.

Mr. ZELIFF. I sure will. Thank you.

Mr. CONYERS. We are pleased now to call our two chairmen—the distinguished chairman of the Budget Committee, Marty Sabo from Minnesota; the distinguished chairman of the Appropriations Committee, Dave Obey of Wisconsin—to join us at this time, if you would.

Good morning, Chairmen. We are honored by your presence. We know that this is an incredibly complex set of hearings, putting all of these bills together, but we would like you to open up the discussion for us. We are delighted to have you this morning.

Mr. SABO. I am not sure which order you want us to go in, Mr. Chairman.

Mr. OBEY. Go ahead.

STATEMENT OF HON. MARTIN OLAV SABO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. SABO. OK. Thank you.

Mr. Chairman and members of the committee, I have a prepared statement, and if I might insert that in total in the record—

Mr. CONYERS. Without objection, so ordered. All of the statements of all of the witnesses will be included in their entirety in the record.

Mr. SABO. Thank you, Mr. Chairman.

Let me say what I say in the prepared statement and then add some comments to it.

It is a pleasure to be here again in front of your committee to visit about process. I have always believed that if we dealt with the

substance of a problem, we would talk less about process, but I think I am being proven wrong this year. The fact is that this Congress has dealt in a more substantial way with the deficit problem than any other Congress in the last dozen years.

We did pass a significant deficit reduction package last year. We estimated it at close to \$500 billion at that point. The reality is that the deficit reduction will be substantially more over the period from 1994 through 1998 than we predicted when we passed that package a year ago. That is in contrast to what happened in 1981, when we had rosy scenarios in the initial Reagan budget which made substantial changes in the Federal budget and projected that within a couple of years, the Federal budget would be in balance. The opposite happened.

The opposite also happened when we passed the big Budget Act of 1990, although some very important reforms and changes occurred in the 1990 act.

I also have to say I am struck by the degree that changes in process are led most often by people who voted no in 1990, or no in 1993 when we dealt with the reality of changes in both spending and revenue that led to significant deficit reduction.

The hypothetical is easy to talk about. Each of us can strike our own hypotheticals. What is difficult in this process is to get agreement that can muster a majority in the House, muster a majority in the Senate, and be of such substance that it can be passed and be signed by the President.

The fact is that what we did a year ago is having a significant impact on the economy. The economy is clearly in recovery. We are producing substantial numbers of new jobs again as Alan Greenspan noted in front of the Budget Committee last week in testimony. He stated the outlook for the U.S. economy is as bright as it has been in decades; and really, that is ultimately what we are about.

Let me speak a little bit about history and how the budget process works and proposals for change.

Some would move us backwards and not forward. The budget process in Congress is relatively new. It started shortly before I came to Congress with the passage of the Budget Act in 1974, which was in response to some real differences between the Congress and the President as related to how to deal with important budget issues. So the bill passed the House and Senate by an overwhelming majority in 1974.

Basically, the way we deal with the budget is divided into two parts—one, discretionary spending which, as Mr. Clinger indicated, is about 35 percent of the budget, the balance being entitlements or interest costs. We deal with them in different fashions; and I think the budget process as we have it today frankly deals with something in a better way than it is given credit for.

We each year set the discretionary spending totals which now are around \$540 to \$550 billion. And since 1990 we have set those as hard targets projected into the future, frankly this works much better than the alternatives we had before that under Gramm-Rudman and a variety of other proposals.

These caps are working as they should. They set overall spending limits on discretionary spending. Within those caps, the budget res-

olution makes certain assumptions by function, but ultimately, we forward to the Appropriations Committee a spending ceiling, and the detail are then reallocated in an appropriation process amongst the various subcommittees.

Since 1990, those caps have basically been followed. They are now in law through 1998.

On the entitlement side, we use a different process; it is called the "reconciliation process." It provides an opportunity for the Congress to deal in a systematic way with the question of entitlement spending.

Within the budget resolution, we can make assumptions of dollar amount changes in various entitlement programs. We then forward, as we did a year ago to the various committees of the House, dollar totals which they have to meet. Generally, we use assumptions about policy changes, to get to our numbers, but those individual committees then have the discretion to meet those savings in whatever fashion they want to enact, with the saving targets set for a 5-year period of time, or in the case of revenues, to increase revenues by a given amount.

It worked a year ago. Basically, the targets we set for our committees were met, and that was part of the deficit reduction package.

Since 1990, we have also had another very important modification on entitlement programs, and that was the adoption of the pay-as-you-go provision, which said that for new entitlement programs, you had to meet the amount of spending it included over a 5-year period of time with either reductions in other entitlement programs or new revenues; so they had to be deficit-neutral over that 5-year period of time. I think that was a very important change, and again, it has worked.

Frankly, when you look at entitlement spending, most of it is in areas that have not been enacted in recent years. Most of the big entitlement spending goes back to programs that predate most of us—Medicare, Medicaid, old programs from the 1960's and Social Security, also the decision to index those for COLAs, again—I forget—I think it was in the early 1970's at some point.

Again, the reconciliation process gives one the option of dealing with that in a structured and organized fashion within the budget resolution.

What about some of the proposed changes? Let me speak to some of them and some problems I see.

Baseline changes: We really use three different methods for dealing with and describing budgets, and I think they all play a role. There are those who argue that we do baseline budgeting here. That, frankly, is not the case. If one reads the report of every appropriation bill that comes before the Congress; it shows last year's number, what the President recommended, and what the committee is recommending this year. I haven't seen baseline charts in any of the committee reports on any of the appropriation bills.

On the other hand, to project what has happened over a period of time on discretionary programs, to know what a base was, what it would be, adjusted by inflation, and to see how it is changed, I think is a legitimate measurement of what is happening with budget policy.

I find that people use this in varying fashions. I find the most avid defenders are those most concerned by the level of defense spending, talking about how much we have cut defense. The reality is, we have cut defense since 1985 in fairly substantial numbers, if you use a baseline in projecting what defense spending would have been from 1985 on. If you simply use the basics of the previous year, it would be roughly flat.

The same theory computes for domestic programs. You can measure them up, down, in various ways, showing the changes in relationship to baseline. That is one legitimate way of measuring what has happened with Federal budget policy. Actual dollar changes from x years is also a legitimate method of looking at changes in where Federal dollars go.

Another method that we use is various functions of government measured as a percentage of the gross domestic product. Again, that is a legitimate method of describing what is happening with Federal policy. I don't know that we should use any of them exclusively or say that one of them is illegitimate when it relates to baseline and entitlement programs.

I would not expect one would argue that we should not project future costs based on current law, because current law projects increased caseload and automatic adjustments for COLAs. If we said we were going to project the future of entitlements simply on this year's spending and ignore current law, we could show much smaller deficits projected in the future. But it would be inaccurate.

If we simply want to look in total at this year in comparison to next year, those Members should suggest that we repeal all growth based automatically on COLAs in all programs and let the various committees make the judgment on that, and eliminate automatic growth from change in caseload. Again, then, you would be back to this year's baseline.

But the reality we have to deal with is what is current law. If we make changes in those, those are, in effect, changes that do impact future spending, future deficits. So I think they are all three legitimate measurements of budget policy; they all three have a use in understanding what we are doing.

Entitlement review, I frankly think what the Congress did last year, or the House did in terms of changing our rules and the accepted order by the President, in establishing a process to each year review entitlements if their costs exceed our estimates, was a very positive step forward; and Mr. Spratt was very key in negotiating between many of us who had differing views in achieving that. In my judgment, that was a very positive step forward.

I would like to see what we did last year put into law so that it applies to both House and Senate and goes beyond simply the Executive order. The lockbox, in my judgment, creates for both the House and the Senate, a new Byrd rule, I have real problems with that.

The fact is that when we adopt a budget resolution we arrive at something that can pass the House and Senate. The lockbox proposal would suggest then that the House could unilaterally change that budget resolution, and the Senate could unilaterally change it. To me, that makes no sense, because as I understand it, what lockbox is suggesting is that after we have gone through the budget

process and decided on a given amount of dollars for discretionary spending, if an amendment passed on the House floor that lowered some appropriation bill, that would automatically change the budget resolution.

If there were a series of amendments, they again would unilaterally change the budget resolution in the House. The Senate might then adopt a whole series of different amendments making reductions in the appropriation bills. Again, those would unilaterally change the budget resolution in the Senate. That makes no sense to me.

You know, you get your agreement on the macro numbers at one point and then you have your arguments on the relative priorities with them. To do it unilaterally by House or Senate action makes no sense.

And that, frankly brings me to the Byrd rule, which I think is one of the real problems we have within the budget process.

The Byrd rule basically prevents us within the reconciliation process from dealing with substantive change in law, unless they are very directly related to entitlement spending without a 60-vote waiver in the Senate. And my position on the Byrd rule, frankly, simply is that if the Senate wishes to have the Byrd rule for their initial consideration of reconciliation, that is fine with me, but it should not apply to conference committees.

We have, I think, distributed to the committee an analysis of the Byrd rule for you, along with a pamphlet on the budget process for your information. In a variety of cases—when you are trying to make substantial changes in authorizing legislation, the Byrd rule simply knocks it out.

An example of that would be, last year when we were trying to improve the income verification for public housing. Clearly, it would save us money. That provision of law could have survived the Byrd rule. But people thought along with it should go a hearing procedure for due process for individuals who left—there was a mistake made. The Byrd rule knocked out the due process.

And we went through a whole series of proposals in that same fashion. We had problems with the spectrum because there were specific provisions we needed to make that workable and they were not acceptable under the Byrd rule.

So, again, I would argue that in terms of budget process on rules like the Byrd rule or lockbox, we should not have a system where the House or the Senate can unilaterally skew what is in the budget resolution.

Let me suggest another problem that I think is going to be of growing concern, and that is our ability to lock beyond 5 years in budget resolutions; and I don't know how one deals with that substantively. The heart of reconciliation is that we can recommend savings for 5 years and committees have to meet it.

I regularly find that committees meet it in such a fashion that they meet the 5-year total, but then costs explode and the policy may not carry on forward for the long term, contrary to the intent of the budget.

Or we are increasingly finding, as Members draft amendments, they are now drafting amendments which go into effect 6 years

from now, which means that they get by the 5-year pay-as-you-go rule simply by making the amendment effective 6 years out.

I think some of the real significant long-term funding problems of the Federal Government are the large ongoing entitlement programs where the real problem is not so much immediate as long term. And again, in many cases, there are ones that are going to deal with changes that may not be changes that have real budgetary impacts in the next 5-year period, but they start in the future.

Like dealing with the long-term problem of Social Security funding, that would be very difficult to deal with in the reconciliation process, because the initial savings might well be beyond the 5-year window of the reconciliation rules. So I think that long-term problem is a real problem for us to deal with; it has real technical difficulties.

CBO will make estimates for 5 years; they will only make projections beyond that, and that clearly is a problem that we have to think about.

Mr. Chairman, I thank you, and I know the bells have rung. I have talked longer than I planned; I should have maybe simply read the statement. But I would be happy to respond to questions under whatever your schedule is.

[The prepared statement of Mr. Sabo follows:]

STATEMENT OF MARTIN OLAV SABO
CHAIRMAN OF THE HOUSE BUDGET COMMITTEE
BEFORE THE GOVERNMENT OPERATIONS COMMITTEE,
SUBCOMMITTEE ON LEGISLATION AND NATIONAL SECURITY
ON
BUDGET PROCESS REFORM
June 29, 1994

Mr. Chairman, Members of the Committee:

Thank you for giving me the opportunity to testify before you today. It is always enjoyable to appear before your committee to visit about the concerns we all share about the budget process.

I've always believed that if we dealt with the substance of a problem we wouldn't need to talk about process -- in fact, I have often maintained that we talked about process when we couldn't deal with substance.

But this year, I am being proved wrong in that view. Clearly, we have dealt with the substance of our deficit problem. We passed a significant economic package last year that dealt with a real problem in a real way and we have had significant success. In fact, the deficit this year will be down more than \$50 billion below last year -- a 20% reduction -- and more than \$90 billion below that of two years ago. That is not to say we shouldn't do more in the future, but there are real macroeconomic effects with any significant change in the

federal budget. The work we did last year went about as far as we should go in a two-year period.

In fact, just last week Alan Greenspan, the Chairman of the Federal Reserve Board, commented extensively on our success in his testimony before the Budget Committee. He stated, "... the outlook for the U.S. economy is as bright as it has been in decades." Further, he noted, "Last year's budget agreement, especially the spending caps, was a significant step in putting fiscal policy on a more sustainable long-run path."

In spite of this success, we are still being asked to make dramatic changes in our budget process. Mr. Chairman and my colleagues on the committee, I FEAR THAT SOME OF THE PROCESS REFORM PROPOSALS NOW BEFORE YOU WILL DRIVE US BACK INTO THE CHAOTIC, DESTRUCTIVE, UNDISCIPLINED, AND EXPENSIVE BUDGET PROCESSES OF THE PAST.

BUDGET PROCESS HISTORY

Why do I say that? First, it might be helpful to review a little history of the budget process.

As most of the members of this committee know, the budget process is very young in this institution. In fact, it was initiated just 20 years ago by the Congressional Budget and Impoundment Control Act of 1974. It was enacted because of growing concern in Congress on the part of members of both political

parties about the growing shift in budgetary control away from the Congress toward the President. The extensive use of impoundment by President Nixon triggered a crisis that was the immediate catalyst for the 1974 Budget Act, but pressures toward this type of legislation had been building for several years.

The 1974 Act stated its purpose as follows:

"To establish a new congressional budget process; to establish Committees on the Budget in each House; to establish a Congressional Budget Office; to establish a procedure providing congressional control over the impoundment of funds by the executive branch; and for other purposes."

The law passed the House 401 to 6 and the Senate 75 to 0. Clearly, Congress felt the need to reassert its constitutional authority over the "power of the purse".

In the twenty years since the 1974 Budget Act was enacted budget procedures in both Houses have evolved and changed. A variety of procedures and devices have been tried to make the process more disciplined and effective. Although many of the earlier mechanisms proved to have serious flaws, the current system of budget controls is working reasonably well as is evidenced by the success of last year's budget agreement in reducing the deficit.

Basically the budget is divided into two different types of spending -- discretionary and entitlement. The budget sets an overall number for

discretionary spending and the appropriations process governs the details within that total pot. Since the 1990 Budget Agreement, the total amount of discretionary spending has been limited by caps set in the budget. In the last five budgets we have not appropriated more than the caps allowed. (There have been two minor disputes over scoring that resulted in sequestrations when OMB interpreted an appropriation to be over the caps, but Congress has not deliberately "busted the caps".)

On the entitlement side of the budget we have a slightly different situation and we deal with this side of the budget through the reconciliation process. The original purpose of reconciliation was to force committees to respect spending ceilings adopted by the budget resolution. In other words, the individual committees must "reconcile" their spending desires within the overall goals of the whole Congress as expressed in the budget resolution. And the taxing committees must raise any revenues required by the reconciliation process. This process is now the primary means of controlling spending in non-discretionary programs.

While entitlement benefit liberalizations have been rare since the 1974 Budget Act, the 1990 Budget Agreement established the Pay-As-You-Go (PAY-GO) system to further clamp down on new entitlement spending. This system requires authorizing committees to find either revenues or other spending cuts to pay for new entitlement spending. Since this requirement went into effect, we have seen few problems with new entitlement programs.

The remaining problem is "old" entitlement programs and the most significant problem we have in that arena comes from the costs of health care. Clearly, Medicare and Medicaid are two of our most dramatically growing programs in the federal government. Further, as in the private sector, the cost of health care is a significant problem in the defense budget and the personnel budgets of every agency. This is why the President has rightly identified health care reform as the second step in getting the federal budget under control.

This is not to say that we shouldn't be reviewing all entitlement programs -- and for that measure tax expenditures -- while we wait to see what happens with health care reform. Rather, my point is that control of the federal budget requires substantive action. All the procedures and process changes in the world won't solve our problems if we don't take substantive action.

So what do we do next? The most important question we need to ask about any process or procedural change is, will it produce a better product or will it produce a worse product than the existing system? In this case, will we have a more manageable, more reasonable federal budget, or will it be more gimmicky and difficult to control? Mr. Chairman, Members of the Committee -- I know that you are trying to evaluate the proposals before you in light of that concern.

PROPOSED BUDGET PROCESS CHANGES

I would like to share with you my concerns and views on the proposals before us and I would like to recommend another idea for your consideration.

BASELINE CHANGES

We hear lots of discussion about how we could improve the budget process by changing the baseline. I have to admit I don't know what people are talking about when they say that.

In my view, it is impossible to develop good budgets without looking at both past and current experience as well as future estimates and projections including inflation. I would object to any proposal which said we should not use either current numbers or estimates of the future including inflation. To me, it is not particularly meaningful to look at projections of future spending or revenues without some understanding of the effect of inflation on the buying power of those numbers. At the same time, I think any budgeting must be illuminated by the reality of past and current experience.

I would oppose any proposal that would deprive us of the ability to review all these factors when making budgets or responding to the President's budget request.

ENTITLEMENT REVIEW

I think the policies the House passed last year on entitlement review were very positive and I would support efforts to get those provisions passed into law. As you may recall, we passed a proposal that established a target level for total entitlement spending that reflected our budget agreement. If entitlements go over the target, the President is required to send to Congress, along with his budget message, a proposal for dealing with the amount of entitlement spending that is over the target. He can do this by cutting spending, increasing taxes, increasing the deficit or any combination of the three. We, then, are required to act on his recommendation. If we decide to increase the deficit, a separate vote is required on that recommendation alone before we can proceed with any other budget action.

Unfortunately, the Senate Byrd Rule prevented us from keeping the legislative language on entitlement review in the reconciliation conference. Therefore, we had to confine this mechanism to an executive order from the President and changes in the rules of the House. I will discuss the Byrd Rule and why I would like it repealed in more detail later.

I should also point out that this year total entitlement spending came in below the target so there was no separate presidential message on entitlements and no action required by the House.

LOCKBOX

Now let me talk about the lockbox. I oppose the lockbox idea because, in my judgment, it destroys our ability to run a rational, controllable budget and appropriations process.

The lockbox idea might work if we had a unicameral legislature in a parliamentary system of government, but we don't!

As it is proposed, the lockbox is a roving, unilateral decision to change the budget. Under the lockbox proposal, every time an amendment passes to cut a discretionary program the overall budget caps would be reduced and the total discretionary spending allowed by the budget would be reduced. This means that every single cutting amendment passed by either the House or the Senate changes the budget resolution, even after the budget has been negotiated through the legislative process and accepted by a majority of both Houses.

I am sure the Appropriations Committee chairman will tell you more about the technical problems this idea poses for the appropriations process. There are, however, unique budget problems with the lockbox beyond any technical issues with appropriations. This idea violates the fundamental operating principal of all politics that says "a deal is a deal"!

The ultimate effect of this type of process is to undermine any ability to use the budget resolution as an overall roadmap for the federal budget. It destroys our ability to make budget decisions in light of their impact on the economy and it reduces our credibility when making budgets. If we indulge

ourselves in this type of process, we will ultimately be back in the position we were in before the 1974 Budget Act with the "power of the purse" residing in the executive branch because our process is so chaotic.

BYRD RULE

There is one additional area where I believe real reform is needed. That involves the Senate Byrd Rule. This rule prevents many significant budget reforms because of its limiting nature on the changes allowed in a reconciliation package. Let me explain the problem in further detail.

The Byrd Rule sets up a 60-vote point of order in the Senate against any provision in a reconciliation resolution that is considered "extraneous". It defines as extraneous any provision that is not directly linked to a change in outlays or revenues that is "scoreable" under congressional budget rules. Now this does not particularly trouble me because the way I see it, the Senate can have any kind of rules it wants. The problem arises because they have made this rule apply to conference committee reports as well.

Because of the impact of this rule, we were not able to accomplish many significant reforms the House passed last year and the House was in a very weakened position when negotiating a conference agreement with the Senate on reconciliation. The problems this created were manifold.

First, the Byrd Rule made it impossible to include provisions necessary to achieve savings in appropriated programs. The House-passed reconciliation bill included a number of provisions designed to reduce the cost of appropriated programs. However, since changes in rules governing appropriated programs are scored as not directly reducing outlays (because they all come under the caps), these reforms were considered extraneous under the Byrd Rule and had to be dropped from the bill. Examples include reform of the subsidy for postal rates for nonprofit organizations which would have reduced costs \$192 million, restructuring of rural electric and telephone loan programs which would have lowered costs \$276 million, and several other changes such as changes in federal employee pay structure.

The Byrd Rule also prevented inclusion of measures closely related to key budgetary provisions, thereby forcing bad legislation. My favorite example of the folly of this rule occurred when House conferees had to take out a due process provision of a housing provision. The House-passed bill tightened enforcement of eligibility rules for housing subsidies and included language which allowed people who thought they were treated unjustly to contest the results at a hearing. The Byrd Rule barred inclusion of the fair hearing provisions in the conference report. In effect, the Senate said we could tighten up enforcement of housing subsidy rules but if we made any mistakes, individuals who had been hurt by our action could not have a hearing.

Further the Byrd Rule barred provisions that could have reduced government costs because CBO was unable to assign particular savings to those provisions.

For instance, several provisions that dealt with Medicaid fraud and abuse had to be dropped because CBO couldn't score them.

The Byrd Rule was incorporated into the 1990 Budget Act. I will be introducing legislation after the recess to amend the Budget Act to end application of the Byrd Rule to conference committees. I believe this change would make a great improvement in our current budget process and I invite you to join me in this effort.

CONCLUSION

In conclusion, I believe the current congressional budget process works much better than it is given credit for. It produces sound budgets when there is a majority in the Congress willing to vote for them. In the past, we have had budget processes which encouraged and almost forced institutional lying. I urge you, as you review the proposals before you, to be wary of this problem.

On the other hand, there is room for some genuine reform of the current process. In my view, that means simplifying the process rather than complicating it.



HOUSE BUDGET COMMITTEE

Honorable Martin Olav Sabo, Chairman - 214 O'Neill House Office Building - Washington, DC 20515 - (202) 226-7200

June 29, 1994

Impact of the Byrd Rule On the 1993 Reconciliation Conference Report

The basic principle of the Byrd Rule as applied to reconciliation conference reports is that a provision will be considered extraneous -- and hence subject to a 60-vote point of order -- if it is not directly connected to a change in outlays or revenues that is "scoreable" under congressional budget rules.

Last year, Senate Republicans served notice that they intended to strictly enforce the Byrd Rule against the reconciliation conference report, and they had sufficient votes to block Byrd Rule waivers. As a result, numerous provisions passed by one or both chambers had to be excluded from the conference report while others had to be rewritten.

Some of the provisions dropped -- such as the reduction in federal pay raises or the cut in the subsidy for rural electrification loans -- clearly have a budget effect in commonsense terms. Other casualties were part of overall legislative packages achieving savings in major entitlement programs, while still others may have had budgetary effects that were insufficiently definite to pass Byrd Rule muster. The net result of applying the Byrd Rule to the 1993 reconciliation conference was a final bill less effective in dealing with the deficit than the version that passed the House.

1. The Byrd Rule made it impossible to include provisions necessary to achieve savings in appropriated programs.

The House-passed reconciliation bill included a number of provisions designed to reduce the cost of appropriated programs. However, changes in rules governing appropriated programs are scored as not directly reducing outlays (because the level of outlays for any given program is ultimately controlled through the appropriations process), and are therefore considered extraneous under the Byrd Rule. Examples of provisions that had to be dropped for this reason include the following:

- Elimination of the 1994 cost-of-living raise for federal employees and delay and reduction in the pay raises for 1995-97; delay in implementation of locality pay raises and limitation of the amount of such raises.
- Restructuring of rural electric and telephone loan programs, basically to reduce the depth of the federal subsidy provided and thereby lower 5-year program costs by \$220 million (House version) or \$276 million (Senate version).
- Reform of the subsidy for postal rates for nonprofit organizations, designed to reduce program costs by \$192 million over 5 years.
- Requirement that the Secretary of Agriculture consolidate USDA personnel and offices so as to reduce personnel and overhead costs by \$500 million over 4 years.

These provisions would have reduced the "per-unit" cost of federal programs, and would thereby have allowed appropriations to be reduced without a corresponding reduction in services. Such savings become increasingly important as the caps on annual appropriations become increasingly tight. The Byrd Rule, however, absolutely prohibits this kind of cost-saving legislation as part of reconciliation.

2. The Byrd Rule prevented inclusion of measures closely related to key budgetary provisions, thereby forcing piecemeal legislation.

When committees report legislation on a particular subject to meet reconciliation instructions, they often wish to address that subject in a comprehensive manner. The Byrd Rule, however, requires dismemberment of comprehensive legislation unless each and every piece can be tied to particular budget savings. For example --

- The House bill made cost-saving changes in various farm commodity programs through fiscal year 1998 and also extended the legislative authority for all commodity programs through that same year. The Senate Parliamentarian ruled, however, that provisions could be extended only if cost savings were made in that specific provision. Because the Byrd Rule required deletion of some extensions, farm programs now have widely varying expiration dates, and the Agriculture Committee is concerned about litigation growing out of inconsistencies between sections of law that were extended and sections that weren't.

- House provisions expanding income verification for housing program beneficiaries also required that beneficiaries be permitted to contest the results at a hearing. The Senate Parliamentarian considered the "fair hearing" requirement extraneous to the income verification savings, however, and it had to be dropped.
- As part of a comprehensive restructuring of student loan programs, the Senate provided for consolidation and refinancing of loans under various existing programs, thus allowing borrowers to reduce their payments without cost to the government; this provision was deemed extraneous to the other student loan changes.
- Both versions of the bill included numerous changes to the rules for Medicare reimbursement for hospitals, doctors, and other providers of services -- in the aggregate cutting outlays by more than \$50 billion over 5 years. Numerous specific provisions had to be excised from the overall package, however, because CBO did not attribute savings to those particular items.
- House provisions modifying the tax credit for businesses operating in the U.S. possessions required recipients of the credit to certify that establishment of new operations in the possessions would not cause a loss of employment at their U.S. facilities; the Byrd Rule required this certification requirement to be dropped.

3. The Byrd Rule led to use of counterproductive drafting techniques in an effort to mitigate its effects. For example --

- As part of its legislation authorizing the FCC to auction rights to use currently unused portions of the broadcast spectrum, the House included provisions requiring 200 megahertz of spectrum to be reallocated from federal to private use and preempting state regulatory authority over certain communications services in order to ensure regulatory parity. Although the House committee apparently deemed both of these provisions essential to the overall spectrum auction package, the Senate Parliamentarian considered them extraneous. The conferees' solution was to condition the FCC's authority to auction unused spectrum on completion of the reallocation and various "regulatory parity" rulemakings. While this technique kept the package together, it may have the undesirable effect of encumbering the auctions and delaying or jeopardizing the budgetary savings.

- The House bill extended the formula for calculating the government contribution to federal employee health benefits. Although the only effect of this provision is budgetary (i.e., to determine the federal government's cost for health benefits), CBO scored no change in outlays for the technical reason that it already assumed the extension in its baseline. The conferees preserved the extension by modifying the formula so that CBO scored it as a small savings.

4. The Byrd Rule barred provisions that could have reduced government costs or made programs more effective because CBO was unable to assign particular dollar savings to those provisions. For example --

- Several provisions related to preventing fraud and abuse in the Medicaid program had to be dropped because CBO did not score them as reducing outlays. Examples include creating a new sanction for kickbacks, requiring states to maintain expenditures for fraud control at no less than the fiscal year 1992 level, and establishing safeguards against fraud under Medicaid managed care contracts.
- Provisions exempting various state health care laws from preemption under ERISA were considered Byrd Rule violations, even though one basic purpose of these laws is to control health care costs -- a goal of great importance to the federal budget.
- Waivers permitting continuation of Medicaid contracts with three specific prepaid health plans could not be extended because CBO scored no savings, even though CBO scored a similar waiver for another plan as reducing outlays.
- Provisions establishing new standards for suppliers of durable medical equipment to Medicare beneficiaries and making reforms to reduce payments for unnecessary equipment and protect beneficiaries from charges in certain cases all had to be dropped because CBO assigned no specific cost savings.

[COMMITTEE PRINT]

**THE CONGRESSIONAL BUDGET PROCESS:
1974-1993**

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COMMITTEE ON THE BUDGET
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FOREWORD

The article that follows is a revised overview of the congressional budget process since the passage of the Congressional Budget and Impoundment Control Act of 1974. The revision highlights the development of the budget process, documents the significant changes that have occurred in the budget process since its inception and emphasizes particularly the recent changes made by the Omnibus Budget Reconciliation Act of 1993. I am grateful to Nicholas A. Masters, my Special Assistant, who prepared the original and revised drafts of this article.

MARTIN OLAV SABO,
Chairman, House Budget Committee

(III)

THE CONGRESSIONAL BUDGET PROCESS: 1974-1993

The Congressional Budget and Impoundment Control Act of 1974 is the single most significant piece of legislation affecting the Federal budget process since enactment of the Budget and Accounting Act of 1921. Like its predecessor of 1921, the 1974 act is part of a process in which the legislative branch seeks to maintain its historic role in determining the Nation's taxing and spending policies, while allowing coordination, led by the President, within an executive establishment whose size reflects the activities of a huge country.

Article I, Section 9 of the U.S. Constitution states, "No money shall be drawn from the Treasury except in consequence of appropriations made by law." Though the authors of the Constitution clearly intended that Congress have the decisive power of the purse, it has not always turned out that way. Throughout much of the 20th century the President has gained power for a variety of reasons. Two of the most obvious ones are the growth of the executive bureaucracy, taxing Congress's ability to supervise; and the President's increased assertiveness in using his executive power coupled with congressional reliance to challenge that power, particularly in times of war.

Wars everywhere disrupt established modes of financing and operating government, and major budget process reforms, including the creation of the Appropriations Committees after the Civil War and later the 1921 and 1974 Acts, tend to respond to those disruptions. World War I generated massive (for the time) spending increases and deficits. The 1921 Act centralized under control of the President (with rare exceptions) preparation of the Budget Estimates with which agencies request funds from Congress. To balance this grant of power, Congress moved control of the audit of spending to the legislative branch from the Treasury, creating the General Accounting Office. Congress also centralized its own activities, reconcentrating authority over appropriations, which had been dispersed towards the end of the 19th century, in the House and Senate Appropriations Committees.

Budget Process Changes, 1921 to 1973

The Budget and Accounting Act of 1921 placed the Bureau of the Budget in the Treasury Department although it officially was under the direct supervision of the President. The Reorganization Act of 1939 recognized the Bureau of the Budget's reporting relationship by moving it to the newly-created Executive Office of the President. The Bureau of the Budget was renamed the Office of Management and Budget as a result of government reorganization

in 1970 and an Executive order from President Richard M. Nixon which implemented the change.

There had always been spending, such as interest on the public debt, that received "permanent" appropriations. These funds did not have to be voted upon annually by Congress. Beginning in 1932, Congress instituted a new form of "backdoor" spending in the form of loan authority. The Social Security Act of 1935 created major new "entitlements," programs with permanent appropriations, such as old age pensions. These would grow steadily as the eligible population grew over the coming years. Congress also expanded contract authority (enabling agencies to enter into contracts in advance of an appropriation) over the following years.

After World War II President Harry Truman appointed former President Herbert Hoover as chairman of a special commission on improving government efficiency. The Hoover Commission, as it was called, came up with a series of measures in its 1949 report that improved the way the budget was organized and presented.

These measures were effectively implemented by the National Security Act Amendment of 1949 and by the Budget and Accounting Procedures Act of 1950.

However other reforms—attempts to create a joint House/Senate "legislative budget," in 1946, and an experiment with intentional omnibus appropriations (rolling all appropriations into one large bill), in 1950—were rejected in practice.

The second Hoover Commission in 1955 made further refinements to the way the budget was organized and presented. Although many of these ideas were not adopted formally, they did eventually find their way into budget management. In fact, the way the budget is organized today by function and category is directly attributable to the Hoover Commission. Important as these changes were, none was as significant as what was accomplished by the 1921 Budget and Accounting Act.

Though the 1921 act and subsequent changes made in the budget process were designed to bring greater control to Federal spending, they also created a system that worked to increase the President's power to shape spending policies. The Bureau of the Budget's superior resources for budget preparation, and the establishment of the Council of Economic Advisers to monitor and predict the economy, gave the President a staff with unmatched ability to develop and analyze budget and economic information. And it was the only agent able to package its spending priorities as a coherent whole to deal with such macro-economic issues as inflation, unemployment and investment. As a result, the Congress continued to play a secondary role to the executive branch when it came to the budget.

Impoundment Crisis

By 1970, control over establishing spending priorities had shifted dramatically away from the Congress and toward the President. Members of both parties in the Congress were disturbed by President Richard M. Nixon's assertion of budgetary powers. Most significantly, he was impounding funds; that is, refusing to spend money that had been constitutionally appropriated.

President Nixon implemented his impoundments primarily by using the authority of the Office of Management and Budget to apportion funding to agencies. That is, OMB has the authority to regulate the rate (typically, so much per calendar quarter) at which agencies may use funds during a fiscal year. This authority was given to the OMB by the Anti-Deficiency Act of 1954 which was intended to prevent agencies from using all their appropriations early in a fiscal year. With insufficient funds to operate during the remainder of the fiscal year, agencies would threaten to shut down if they did not receive supplemental funding. Rather than apportioning all funds to agencies, President Nixon instructed OMB not to apportion the funding he wished to impound, thereby preventing an agency from using that money.

The impoundment crisis was the immediate catalyst of the 1974 Budget Act, but its long-term antecedents were firmly rooted in the congressional reform movement that reasserted itself in the late 1960's. Striving to adapt itself to a changing world and government, Congress revisited many of its procedures, seeking to combine both greater democracy and greater coherence. The Senate passed financial disclosure legislation and tightened the rules with regard to registering lobbyists. The Legislative Reorganization Act of 1971 was designed to improve the ability of Congress to deal with increasingly complex and technologically oriented legislation, and also required the President to update budget figures in reports for the Congress. The House established a Committee on Standards of Official Conduct (commonly called the Ethics Committee). The Senate established its "Ethics Committee" a few years earlier. The House also began, for the first time, to vote for its committee chairmen at the start of each Congress. Before then, seniority alone determined who served as chairman. The new procedure required a vote of confidence by the Democratic Caucus. Chairmen who failed to win confidence could be challenged by other members.

Seeking to justify his impoundments, the President adapted the reformers' own rhetoric, in essence asserting that he had to usurp power because Congress had failed to fix itself. In the President's budget message to Congress, submitted on January 29, 1973, Richard M. Nixon wrote that "[t]he fragmented nature of congressional action [on the budget] results in a... serious problem. Rarely does the Congress concern itself with the budget totals or the effect of its individual actions on those totals.... The Congress must accept responsibility for budget totals and must develop a systematic procedure for maintaining fiscal discipline."

It was easy to find Members of Congress who agreed with that assessment. Although the Federal budget had changed considerably in the 20th century, *congressional procedures* for dealing with it had not changed much since enactment of the 1921 Budget and Accounting Act. Before 1917, there was only 1 year in which the Federal Government spent more than \$1 billion and that was during the last year of the Civil War. By the 1920's, Federal spending increased to about \$3 billion annually. In the 1930's it was in the \$6-\$8 billion range. In the last year of World War II it rose to more than \$98 billion. By the end of the 1950's spending was \$80-\$90 billion a year. In the early 1970's it had reached \$250 billion.

In the 13 year period from 1960 until the Congressional Budget Act was first introduced in early 1973, Federal spending tripled; the inflation rate tripled; and the dollar outflow abroad quadrupled. The 1921 Budget and Accounting Act remained the last major reform of congressional budget procedures. Yet in the more than half a century that had passed since then, the Federal Government was spending yearly 100 times what it was spending yearly in the 1920's.

Such standard problems of providing for the national defense, health and education remained. Other problems emerged and demanded attention. International trade and competitiveness, the consequences of regulation and later deregulation, a more active Federal Reserve, major overhauls in the tax system—they all put additional pressures on the way the Federal Government budgeted its resources. Congress's existing form of control, the appropriations process, became less adequate as old entitlements grew to be a larger part of the budget, new entitlements were created, and other "back-doors," such as contract and loan authority, were expanded. There was a proposal to index Social Security benefits, so that they would rise automatically. This proposal was adopted in 1975. Increases in other programs were tied to the inflation rate which, as it happened, was about to enter the double digit range.

In this climate the legislative branch needed to change if it intended to participate as an equal party with the executive branch. Congress was at a distinct disadvantage because it had a limited capacity to analyze the President's budget or to develop a fiscal policy of its own. In particular, it needed reliable estimates of the cost of Social Security and other forms of entitlement spending. It found itself unable to pass, before the beginning of the fiscal year that then began on July 1, the 13 regular appropriations bills that together made up the discretionary part of the President's budget. When Congress did pass spending bills they were not coordinated with the revenue bills.

THE CONGRESSIONAL BUDGET AND IMPOUNDMENT CONTROL ACT OF 1974

Budget Committees and the Congressional Budget Office

The fragmented nature of congressional action on the budget virtually forced Congress in 1972 to establish the Joint Study Committee on Budget Control. In the words of the Joint Committee:

We must have an effective, permanent mechanism for budget control which will assure a more comprehensive and coordinated review of budget totals and determination of spending priorities and spending goals, together with a determination of the appropriate associated revenue and debt levels.

There were many individual legislative proposals introduced in the early part of 1973 aimed at regaining legislative control over the power of the purse. But the Joint Study Committee's proposals proved to be the most important since they directly led to the introduction of S. 1541 in the Senate and H.R. 7130 in the House of Representatives. It was these two bills that were enacted into Public Law 93-344, the Congressional Budget and Impoundment Control Act of 1974.

The opening words of the legislation stated the purpose as follows:

To establish a new congressional budget process; to establish Committees on the Budget in each House; to establish a Congressional Budget Office; to establish a procedure providing congressional control over the impoundment of funds by the executive branch; and for other purposes.

It passed the Senate 75 to 0 and the House 401 to 6.

The Congressional Budget Office (CBO) was created to give Congress the capacity for analyzing and developing economic and budgetary information independent of the President. The authors of the Budget Act assumed that if Members all had the same macro-economic information then they would be able to deal rationally with policy choices as to the division of budgetary resources, as well as develop a coherent fiscal policy. In other words, if Congress had the capacity to provide its own information, then Congress would be able to "do the right thing" in determining the amount of revenues it should raise and the amount of expenditures it needed to spend. While CBO's estimates were less subject than OMB's to suspicion of political manipulation, so they came to be relied upon heavily, the uncertainties of the world and of estimation ensured that CBO's estimates also were often off the mark, creating embarrassments which could not be erased by reports of "technical corrections." Unforeseen at the time, CBO's estimates and technical corrections would vary widely and would be just as controversial and subject to change as anything OMB ever did.

The Budget Committees were created with the responsibility for drafting a concurrent resolution on the budget and directing the congressional budget process. As with any other committee, membership on the Budget Committees is determined by the rules of each House. In the 103d Congress, which began in January 1993, the House Budget Committee has 43 members and the Senate Budget Committee has 21 members. The ratios of majority and minority members are determined at the beginning of each Congress based upon each party's strength.

The Budget Committees were superimposed on the existing committee structure. The House Budget Committee has no legislative jurisdiction of its own other than reporting a concurrent resolution, but the Senate Budget Committee does have jurisdiction over the 1974 Budget Act, the Balanced Budget and Emergency Deficit Control Act of 1985 (Gramm-Rudman-Hollings), and their amendments.

Unlike the Senate, the House Budget Committee has a rotating membership, with one exception. The one exception is that members of the House leadership who serve on the Budget Committee, one from the majority and one from the minority, have no term limits. No member of the House Budget Committee can serve more than 6 years out of every 10-year period. Nor can any chairman serve more than 6 consecutive years as chairman. Four of the seven House Budget Committee chairmen, including the present chairman, had contested elections for the chairmanship. The Senate has changed chairmen only because of retirement, resignation or a change of party control. Any Senator can serve on the Senate's Budget Committee. The House, however, requires that the total membership of its Budget Committee include five members (three

majority and two minority) each from the Ways and Means and Appropriations Committees and at least one from the majority of the Rules Committee.

It should be noted that the appointments of both parties leadership members have had significant consequences in the development and implementation of the budget process. All four Democratic appointees to the House Budget Committee have held the office of Majority Leader—with the first three being later elected to the office of Speaker. Republican appointees have not generally been members of the formal leadership but they have had considerable backing of the Republican Conference in presenting their views.

Perhaps one of the most important provisions in the Budget Act from the standpoint of gaining early acceptance of the new process by the entire membership was the Budget Committees' power to review legislation in order to prevent utilization of "backdoor" spending (as defined on page 2) by House and Senate authorizing committees. The Budget Act prohibits most types of "backdoor" spending but it is a complicated subject that requires interpretation. The House and Senate Appropriations Committees work closely with their respective Budget Committees in enforcing the act's provisions through careful review of authorization legislation that has a budget impact. The authorizing committees also use the Budget Committee's staff for advice as to how to prevent Budget Act violations that would raise points of order against their bills.

Concurrent Resolution

The concurrent resolution on the budget is intended to provide the Congress with a legislative measure that relates the disparate parts of the budget to the whole and provides a means of enforcing budget targets on itself. It is used to coordinate the budgetary actions of the other committees, something that the Congress had never done before although the executive branch had been coordinating its budget actions among the various departments and agencies since 1921. The concurrent resolution is drafted by the Budget Committee in each House of Congress. A concurrent resolution is approved by Congress in the same manner as a statute, but it does not have the force of law because it is not presented to the President and therefore cannot be vetoed and does not require the President's signature.

The Budget Act requires that Congress pass its concurrent resolution on the budget by April 15 of each year. This resolution sets targets in five areas: (1) total new budget authority, (new legal obligations that will result in the immediate year or future year outlays of government spending); (2) total budget outlays, (actual spending in that particular year); (3) total budget revenues; (4) total budget surplus (or deficit); and (5) total public debt. The congressional budget resolution for 1975 marked the first time that Members of Congress had an opportunity to vote on budget totals.

The concurrent resolution is structured as Congress's response to the President's budget, which itself is divided, following Hoover Commission recommendations, into functional categories. Debate about relative priorities therefore is reflected in figures for 21 categories at all, covering such areas as national defense, veterans af-

fairs, income security, education, energy, health, transportation, and interest on the public debt. But the appropriations process is organized in terms of agencies with legal authority to spend money, which crisscross the functional categories, so the relevance of the functional priorities in the resolution as standards for appropriations action has never been established.

In allocating spending whether as totals or priorities, the concurrent resolution also must distinguish categories of spending. One is outlays: the amount spent each year. Outlays create the deficit for that year, but are different from the amount of money that agencies are allowed to obligate each year. An agency may obligate funds to buy a piece of equipment, for example, yet not disburse most of the money until that equipment is completed, often years later. So the concurrent resolution provides targets for both outlays and budget authority (the authority to spend).

There is a further difference in terms of how budget authority is allocated. The resolutions provide targets for each committee in terms of the amount of new budget authority and outlays it can create that year (or the amount by which it must reduce them by changing existing law) After the 1990 amendments, these are the "602a" allocations (formerly "302a"). The basic division is between entitlements, which are funded in authorizing legislation, and annual appropriations, which are within the allocation to the Appropriations Committee. But there is a further complication.

A number of programs, such as food stamps, are entitlements in the sense that Congress and the President have created an enforceable obligation of the government to individuals, but do not have permanent appropriations. Since they must be annually appropriated, the Appropriations Committees need an allocation for these funds. But, since their totals are essentially automatic without legislative changes, the Appropriations Committees cannot really be held responsible for them. During the 1980's Congress was forced to confront this anomaly, and the 1985 revisions of the Budget Act formalized the understanding still followed today. This distinguishes between "mandatory" and "discretionary" appropriations, and the key aspects of the 602a allocation to the Appropriations Committees are therefore the Budget Authority and outlay figures for those discretionary accounts.

Under the budget process, the previous procedures of authorization and appropriation continue but with two important changes. The first change is that the House Appropriations Committee is required to report all regular appropriations bills by June 10, regardless of other actions on authorizations or the budget resolution. By custom, the Senate waits for appropriations bills to originate in the House, so it has no formal deadline other than the start of the fiscal year on October 1.

The second and far more significant change is that, because of the reconciliation process and various points of order related to the 602a process described above, committees are distinctly constrained in their legislation. At a minimum, they cannot take action that exceeds their 602a targets; at a maximum, they are strongly pressured to report legislation that changes law to meet those targets, if such changes of law are required.

The Appropriations Committees are especially constrained, since they do not have the option of refusing to act. This constraint was not so meaningful in the early years of the Budget Act, because each individual bill could not exceed a limit on the total. Only the last bill was likely to "bust" the target, and it could not be expected to take all the blame. But reforms in 1985 required the Appropriations Committees not only to publish sub-allocations among their subcommittees (the 602b, or 302b, allocation), but made that allocation binding, so points of order inhibit either the committees or floor amendments raising each bill's totals above the targets.

Budget resolution controls and instructions apply to revenues as well as spending: the revenue-raising committees of the House and Senate also receive targets to increase (or even decrease) taxes. But aside from the Appropriations Committees, no committee, under the usual legislative process, has to report legislation about its part of the budget each year. Reconciliation was created to force committees to respond to the spending and revenue targets in the concurrent resolution targets that, since the 1980 fiscal year, have covered at least 2 fiscal years beyond the one for which appropriations were being made.

In 1978 Congress passed the Full Employment and Balanced Growth Act, known as "Humphrey-Hawkins," that amended the rules of both Houses in providing for 4 hours general debate when a first budget resolution is under consideration. The debate each year is to be focused on "full employment and the economy" based on economic goals and policies set forth by the Joint Economic Committee.

The Budget Act originally provided for two budget resolutions. The first resolution, adopted in the spring, served as a target. The second resolution, adopted in the fall, provided binding numbers. The second resolution would be passed by September 15 and be followed if necessary by a reconciliation resolution (September 25) that would force committees to respect spending ceilings if they had been exceeded or not been met. But the second resolution turned out to be difficult to pass and was eventually dropped.

Reconciliation

The original purpose of reconciliation was to force committees to respect spending ceilings adopted by the budget resolution. In other words, the total amount of money the committees want to spend cannot exceed the amount set by the Congress for the whole Federal budget. That is why it is called reconciliation. The individual committees must reconcile their spending desires within the overall goals of the whole Congress as expressed in its budget resolution. The taxing committees must adopt the revenue target contained in the resolution. The reconciliation process has evolved into the primary means of controlling spending in entitlement and mandatory programs as well as establishing a revenue floor.

Reconciliation is a two-stage process that seeks to bring mandatory spending and revenues in line with Congress's budget resolution. In the first stage, the concurrent resolution sends instructions to committees about how much they should decrease (or increase) budget authority, and outlays in the mandatory spending area as well as revenues. At the second stage, legislation to meet these tar-

gets is drafted by the authorizing committees with spending and revenue jurisdiction. The Budget Committees in the House and Senate then combine the recommendations of the authorizing committees into an omnibus reconciliation bill, which after passage of the bill in both chambers and conference changes is sent to the President for his approval. Conferences between the House and Senate on reconciliation measures have their own procedures. Suffice it to say that the most recent conference (1993) included 13 standing committees in the Senate and 16 in the House. To resolve the differences 31 mini-conferences were established. The Presidents have signed all ten bills between 1980 (the first time reconciliation was used) and 1993.

The Congressional Budget Office plays a critical role in the reconciliation process. CBO provides the cost estimates of specific provisions to ensure that the *savings* claimed in the reconciliation bill are legitimate and that the bill is scored accurately.

No discussion of the budget process—specifically the reconciliation process—would be complete without mention of the Byrd Rule. Named after its originator, Senator Robert C. Byrd of West Virginia, the Rule was originally adopted in 1985, as a Senate Floor amendment to that year's reconciliation bill, in response to concern over abuse of the reconciliation process. Unlike most legislation considered in the Senate, reconciliation bills are not subject to unlimited debate and are not subject to non-germane amendments. As a result, Senate committees had begun to use reconciliation as a vehicle for legislative language unrelated to the specific intention of reconciliation.

The Byrd Rule—codified in 1990 as section 313 of the Congressional Budget Act—authorizes a point of order against any provision in a reconciliation bill, an amendment thereto, or a conference report thereon, that contains “extraneous” material. Provisions that are extraneous in a reconciliation bill are those that: 1) violate Senate committee jurisdictions, 2) increase the deficit if the Senate committee failed to meet its reconciliation instruction, 3) produce no change in the deficit, 4) produce budgetary changes incidental to its non-budgetary aspects, 5) increase the net deficit in future years, or 6) affect the Social Security old-age, survivors, and disability insurance program. Provisions that are extraneous in a reconciliation conference report are those that violate 3 through 6 above. The specific language of the Byrd Rule makes application of the Rule difficult to know with any certainty and a strict interpretation could yield unreasonable results. However, with consideration of each reconciliation Act the volume of precedent grows and with that comes clarification and greater certainty.

A motion to waive the Byrd Rule is in order and requires an affirmative vote of three-fifths of the Senators duly chosen and sworn—60—to succeed. Similarly, a ruling of the Chair is overturned on appeal only by an affirmative vote of 60 Senators. If a motion to waive is unsuccessful and the point of order is sustained, the provision is stricken from the bill or conference report. If stricken from a conference report, the report is defeated and the question before the Senate is an amendment consisting of the language of the conference report minus the provisions stricken on the point of order. The latter procedure has never occurred. In some years as

a result of bipartisan compromises and most recently, in 1993, as a result of extensive efforts by the conferees to conform the conference report to the Byrd Rule, points of order were avoided on the Senate floor.

The Appropriations Committees in the House and Senate are generally not subject to reconciliation instructions. Instead, they are governed by the binding spending limits on all discretionary spending set forth in the budget resolution. The overall limit on discretionary spending is now enforced by a cap, as explained below.

The frequency with which reconciliation has been used indicates that this procedure has become a regular part of the budget process.

Selected Provisions of the Budget Act: Fiscal Year and Impoundments

The Budget Act changed the beginning of the fiscal year from July 1 to October 1. The extra 3 months gave Congress more time to act on the 13 appropriations bills before the new fiscal year began. Initially, this change helped. The 1977 fiscal year was the first time in a decade that all the regular appropriations bills were enacted before the start of the fiscal year. The only other time this occurred was in 1989. There has been improvement in meeting the timetable but strict compliance is still lacking.

The budget process and the impoundment control procedures corrected two main deficiencies that had weakened congressional control of the purse. The budget process part of the act set procedures and timetables for Congress to establish its own comprehensive program for the Nation's taxing and spending priorities. The impoundment procedures prevented the President from unilaterally abrogating legislative decisions on appropriations. By joining budget and impoundment control into a single act, Congress sought to ensure that the power of appropriations assigned to it by the Constitution was exercised more responsibly and effectively.

The impoundment provisions of the 1974 act authorized Presidents to delay or withhold previously enacted spending, but only with notification or approval of the Congress. This provision was key to getting the President to sign the bill into law.

Specifically, the impoundment provision gave the President a congressionally-approved procedure to defer or rescind spending. Spending deferrals mean the money is withheld from being spent for a specific period of time. That period may not extend beyond the end of the fiscal year in which the deferral is proposed. Spending that is rescinded, however, is money that is permanently cancelled.

The President can defer or propose to rescind spending by sending a message to Congress to that effect. In case of deferrals, action by either House of Congress to disapprove the deferral means the deferral must cease at once. In the case of rescissions, both houses of Congress must approve the rescission within 45 days. If both houses do not approve, the rescission is denied and the funds must be released for use. The logic behind this procedure is that since a rescission represents the undoing of what Congress previously enacted, no rescission should take place unless approved by an affirmative vote in both houses.

Deferrals do not require congressional approval, but are permitted only to provide for contingencies, to achieve savings made possible by changes in requirements or operational efficiencies, or as otherwise specifically provided by law. The original 1974 act also permitted deferrals for policy reasons (e.g., because the President disapproved of a particular program or wished to restrain overall expenditures) and made all deferrals subject to disapproval by vote of either House of Congress. In 1987, however, a Federal appellate court ruled that the President's authority to make policy deferrals was inseverable from the one-House legislative veto, which had been invalidated in *INS v. Chadha* (1983). Thus, the President's deferral authority fell with the legislative veto. The Budget Act was amended later that year to prohibit deferrals except for the non-policy reasons mentioned earlier. The use of both rescission and deferral remains as controversial today as when they were first enacted.

The Baseline Budget

The baseline budget has been developed principally to provide a means of accurately measuring reductions or increases in spending and revenues received. The Federal budget is affected by a variety of actions independent of what the President or Congress may do. There are unpredictable forces that affect Federal spending and tax receipts. Take the example of entitlement programs. Entitlement programs such as Social Security, Medicare, food stamps, and farm price supplements and interest on the public debt account for 62 percent of all Federal spending. Existing Federal laws mandate that the government must provide specified levels of benefits to all eligible applicants of entitlement programs.

The baseline shows how much spending is needed in future years to maintain current government programs and the revenues anticipated if the tax system were not changed. Deficit reductions are measured according to the policy changes they would make to the baseline budget. Increases in spending to provide an investment strategy (for example, additional highways) would be measured in terms of additional funding above the baseline.

Stated differently, the budget baseline is a means of determining how the budget in some future year—if certain changes are made—would compare with the same budget in the future year if no changes were made. The principal agencies that formulate baseline budgets are the CBO and OMB. The two baselines are similar, but OMB's baseline (called Current Services) is based on different objectives, technical adjustments and economic assumptions than CBO's. The formulation of economic assumptions is a critical exercise in developing a baseline budget, a Presidential budget or congressional budget resolution. Predictions in growth in GDP, the level of unemployment, the rate of inflation and interest rates impact on both the revenue and spending levels.

A tax reduction or increase is measured against the anticipated revenues in the baseline. This would be a policy change.

Entitlement programs can be cut, of course, by restricting benefit levels. When such action takes place, they represent what is called a reduction from budget baseline or a budget savings.

Federal revenue receipts can, however, change even if tax policy does not change. In a recession, revenues would be less. In a growing economy, revenues would be greater than anticipated. In both cases tax policy need not have changed.

The same is true for Federal spending programs. If more people retire in a given year than anticipated, Social Security spending would increase. In the same manner, fewer retirements than anticipated would mean reduced Social Security spending in that year. Yet no one could properly argue that Federal spending was "cut" because fewer people than anticipated retired in a particular year.

Implementation of the Budget Act

Almost immediately after passage of the act in 1974, liberals of both parties in the House and Senate—those who favor government spending as an economic tool as well as a means for social justice—thought they could use the budget process to direct spending for various programs they supported. Conservatives—those who advocated restraint for spending in domestic programs—thought the new process could be used to control spending for these very same programs. The budget process has been used to increase as well as control spending, depending on the economic circumstances of the time. It has been used to call for tax increases and tax cuts. It has been used as a deficit reduction process as well as a means of providing for a public investment spending strategy. Sometimes it has been used to do several different things at once. The budget resolution in 1981, for example, called for reductions in both taxes and domestic spending, an increase in military spending, and required that the reconciliation targets be met for each of 3 fiscal years to insure multiyear savings.

The first test of the act was during the 1975 recession. The country faced double-digit unemployment. House Speaker Carl Albert asked all 13 House Appropriations Subcommittee chairmen to draft job stimulus proposals. The next step was to incorporate in the budget resolution reported by the House Budget Committee spending allocations for the job stimulus proposals. The success of the budget process, led by the House Budget Committee, in responding to this macro-economic crisis firmly established the new budget process in Congress as something significantly more than just rhetoric.

Much of the credit for this success must be given to House Budget Chairman Brock Adams (D-WA) and Senate Budget Chairman Edmund Muskie (D-ME) for shepherding the first budget resolution through a skeptical and reluctant Congress. They were instrumental in establishing clearly the original intent of the Budget Act, which was to give Congress the *capacity* to develop fiscal policy. If anything, the Budget Committees carried their role even further than the original intent by assuming detailed line-item decisions about increasing or decreasing spending in specific programs.

During the first 4 years of the existence of the budget process the role of the House and Senate Budget Committee was to fashion a concurrent resolution that upon adoption would serve as a guideline to the Congress as whole on the appropriate fiscal policy. Although existing enforcement procedures were seldom used, the politics of gaining acceptance of a majority vote in both houses was dif-

ficult. In the Senate a consensus emerged between a large number of Republican and Democrats on budget issues, but there were also policy differences among the Senators. The House support of budget resolutions in the period divided mostly along party lines.

It should be noted that the original intent of the Budget Act was to enforce budgetary decisions in the following manner: 1) a point of order would lie against any spending bill that breached the spending ceilings as set forth in the Budget Resolution and applied to either budget authority or outlays or both (Sec. 311a), and 2) a point of order would lie against any revenue bill that breached the revenue floor set forth in the Budget resolution (Sec. 311a).

These early enforcement measures were soon regarded as unnecessary, ineffective, and unfair—because, as noted above, controls on the total of appropriations bills, but not individual bills, did not work. The Sec. 311 process would be stricken from the Act when the Sec. 302b process was strengthened. In the meantime, self-discipline was the only meaningful enforcement tool.

In 1980, reconciliation was adapted from a provision to be applied to the second concurrent resolution to become a part of the first resolution. That step transformed the budget process, changing reconciliation from a measure that could not be produced in the time allowed (ten days), so was not used, to arguably the most important vehicle within Congress. In essence moving reconciliation to the first resolution also eliminated the point of the second resolution: if the reconciliation passed, the second resolution would be unnecessary. The latter swiftly fell into disuse, and was abolished in 1985.

From Macro Policy to Specific Controls

But reconciliation, and the capacity to contest the President about macroeconomic totals, did not between them serve to reduce the deficit to politically acceptable levels. Having the capacity for analyzing macro-economic information proved to be not enough. By the mid-1980's Congress decided that it also needed more stringent control mechanisms to force itself to take certain actions. These mechanisms would automatically trigger across-the-board spending cuts if Congress failed to adhere to deficit targets. The sequestration order, as it is called, to implement the spending cuts is issued by the President based upon a formula set by statute.

The seeds of sequestration were planted in 1980 with a renewed emphasis placed upon controlling budget deficits. This change in focus altered the congressional budget process from one of solely developing macro-policy analysis to one of also imposing control. The preoccupation with the deficit from 1980 onward has become the tyranny of budget politics.

The congressional budget process was not born in a time when the deficit was at the forefront of national attention. Rather, the economy of the 1970's was a time of high inflation coupled with high unemployment. This stagflation, as it was called, led to a different emphasis in the House and Senate as well as different approaches by liberals and conservatives in both parties in how they dealt with the Federal budget.

During the 1970's, the Senate was concerned primarily with broad, sweeping economic issues. The House's emphasis was on in-

dividual programs. The Senate budgeted from the top down; the House from the bottom up. The primary issue in the House was how much to add or subtract in any given year from the CBO baseline, which is the previous year's spending adjusted for inflation and growth in entitlement program caseloads.

The Senate's approach was what the House called formula budgeting, such as across the board cuts in spending or freezing spending at last year's level. House Members generally were more concerned with individual programs and believed they could best protect them by dealing with them as line items. As a result, the House found itself voting on many amendments in relatively small amounts to ensure funding for particular programs. Across the board amendments to the budget resolution were also attempted in the House in the early years, but were invariably defeated. The Senate also had an amending process for budget resolutions, *but* all Senate Budget Committee chairmen have opposed specific line-item amendments, arguing that such decisions were the prerogative of either the Senate authorizing committees or the Senate Appropriations Committee.

As the deficit rose, and repeated deficit-reduction measures failed, both chambers came to emphasize formula budgeting. Specifying cuts within budget resolutions looked less attractive in the House, especially as the Appropriations Committees were not bound by those specific assumptions. There was near unanimous agreement, at least publicly, on the need to find the "right" balance of spending cuts and revenue increases to move toward a balanced budget. But specifying how was less attractive.

After all, leaders in both parties argue against the deficit. No one defends it. Everyone wants to reduce it. How to go about doing this, however, does have partisan political implications.

Riverboat Gamble

Congress hoped its budget resolutions would enable it to get a better grip on the budget. The 1980 Presidential election and the election of Ronald Reagan soon changed the emphasis to getting a grip on the deficit. The massive tax reductions under President Reagan, coupled with increased defense expenditures, poured considerable public and private money into the economy, which was expected. Unexpected was that the added discretionary income created by the tax cuts in the Economic Recovery Tax Act of 1981 (ERTA) went into unproductive endeavors rather than improving the infrastructure or productivity of the country. The "Riverboat Gamble," as the tax cut program was called by Senator Howard Baker (R-TN) at the time, failed.

The deficit reached previously unimagined heights in the 1980's. Under President Reagan the national debt went from under \$1 trillion when he took office to over \$3 trillion by the time he completed his second term 8 years later. Another \$1 trillion of debt was added by President George Bush in less than a 4-year period. The widening gap between the Federal Government's income and its expenditures led President Reagan to propose and sign into law what became the largest tax increase in American history (The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA)). A few years later President Bush proposed and signed the Nation's second largest (at

that time) tax increase less than 2 years after pledging he would oppose any tax increase at all. Bush later said that he had made a mistake in proposing a tax increase.

The deficit problem did more than anything to institutionalize the role of the Budget Committees in Congress. They were the only committees able to deal comprehensively with this issue. Other macro-economic issues—unemployment, investment strategies, inflation—all had to fall behind the deficit in emphasis.

It was in this period that Congress began imposing procedural control mechanisms which were designed as a means of achieving a balanced budget or at least lowering the deficit. Control mechanisms soon replaced the primary thrust of the budget process, replacing the self-discipline that had been hoped for as a result of increased capacity on the part of Congress.

BUDGET CONTROL MECHANISMS

Gramm-Rudman-Hollings I and II

Republican Senator Phil Gramm, who as a Democratic House member had sponsored the "Gramm-Latta" budget resolution that promised to avoid such troubles, joined with Warren Rudman (R-NH) and Ernest Hollings (D-SC) to write the first version of what would become a series of attempts to create budget rules that forced Congress and the President to agree to large deficit reductions. Senator Phil Gramm, who had been elected to the Senate as a Republican, joined with Warren Rudman (R-NH) and Ernest Hollings (D-SC) to write the Balanced Budget and Emergency Deficit Control Act of 1985 (commonly known as the Gramm-Rudman-Hollings law or GRH, after its three principal authors). This act set specific deficit reduction targets and mandated relative across-the-board sequestration of Federal spending if the targets were not met. Many Members had hoped that the control procedures, at the very least, would give them political cover in reducing spending or raising taxes by claiming that sequestration—if they had failed to act—would be a worse alternative. In the few instances where sequestration was invoked however, it caused grave concern among the Members of both Houses.

Part of the first version (GRH I) was declared unconstitutional because it provided that the President's sequestration order be controlled by estimates determined by the Comptroller General, an agency of the Congress. The Supreme Court ruled that this was an unconstitutional exercise of executive authority by a legislative agent and therefore in violation of the separation of powers doctrine. As a fallback mechanism, the contents of the sequestration order were placed in a bill and enacted into law. The second version (GRH II), enacted in 1987, gave OMB the power to determine the estimates for the President's sequestration order.

Both versions of Gramm-Rudman-Hollings signaled clearly that the budget process had changed from a capacity mechanism to include one of control. Capacity provided a procedure for Congress to respond to a variety of macro-economic issues, including the deficit. The focus on control has severely restricted congressional action by forcing it to deal primarily with one issue, the deficit.

The most sweeping legislation prior to 1993 ever imposed upon the Congress in terms of attempting to control the budgetary outcome came in late 1990. Gramm-Rudman-Hollings had failed to produce the desired results. The sequestration required to comply with GRH II was politically unacceptable. President Bush and the Congress agreed on a budget accord that would reduce the deficit by half a trillion dollars over 5 years, \$135 billion of which came in the form of new taxes. This agreement is referred to as the Budget Enforcement Act of 1990 (BEA).

This act revised the Gramm-Rudman-Hollings deficit targets by making them adjustable rather than fixed; extended the sequestration process through fiscal year 1995; and created a "pay-as-you-go" process requiring any increase in entitlement or mandatory spending or decrease in revenues to be offset so there is no net increase in the deficit. It also placed separate spending caps on the three major categories of discretionary spending: defense; domestic; and international. "Firewalls" prevented Congress from shifting funds from one category to another. After 3 years, these caps were combined into a single discretionary cap.

The BEA represented a rejection of the theory that Congress could somehow be threatened or forced to agree within itself and with the President to achieve some specific target. The BEA was based on taking concrete steps and forcing the President and Congress not to change them.

The Congress used a unique procedure to craft the budget agreement in 1990. The agreement was a product of negotiations at the highest levels of the Federal Government. The participants included the President, the Secretary of the Treasury and the Director of OMB, the leadership of both parties in both Houses of Congress, and both the House and Senate Budget Committee chairmen and ranking minority members, along with the Senate Finance Committee Chairman and ranking member and the House Ways and Means Committee Chairman and ranking member. The BEA is often referred to as the "summit agreement."

Despite these control provisions the deficit in the ensuing years continued to increase. It was not however, a result of non-compliance with the caps or the failure of the pay-as-you-go requirement, but rather in a large part resulted from the incredible growth in Medicare and Medicaid costs. Also, the price of paying off deposit insurance for failed savings and loans and banks, along with a sluggish economy caused the deficits to burgeon. Control mechanisms, then, helped only to limit the growth of deficit spending.

Balancing the Budget and the Line Item Veto

The BEA was regarded as only a first step. Many Members of Congress still wanted a constitutional requirement for a balanced budget. In the House, for example, strong support existed for a constitutional amendment requiring a balanced budget. Leon E. Panetta (D-CA), Chairman of the House Budget Committee at the time, successfully opposed this proposal by marshalling 153 votes (all but two of which were cast by Democrats)—a number barely more than the one-third required to block passage of a constitutional amendment when the measure came up in 1991.

As a substitute for the constitutional amendment Panetta introduced the Balanced Budget Enforcement Act of 1992, a statutory approach designed to provide for a balanced budget within a 6-year period. The bill included stringent control procedures that require the President to submit a balanced budget; required both the President and the congressional budget committees to use the same economic assumptions in the formulation of their budget; and included a sequestration order if the Congress fails to meet its revenue and spending targets. This bill also incorporated spending caps and "pay-as-you-go" provisions. The Panetta bill was not adopted, but a similar version has been introduced in the 103d Congress.

Recent Presidents, including President Clinton, have favored a line item veto to allow the President to veto selected items in a bill without being required to disapprove the entire bill. The President has no constitutional authority to disapprove selected items in a particular bill. Since a constitutional amendment is not likely, a new procedure has been suggested in its place entitled "enhanced rescission." Under this procedure the President may rescind the budget authority for an item or items and a statute of disapproval would be required to overturn the rescission. (Existing procedures require Congress to *approve* rescissions before they take affect.) The procedure is under review at this time and has not been enacted but it is safe to say that major budget savings would *not* result from such a measure.

Another approach is "expedited rescission." Under this procedure the President would have to obtain congressional approval, but Congress would be forced to vote on Presidential proposals. The House of Representatives passed this version in 1993.

The new forms of proposed rescissions are available as policy instruments, but neither of the new proposals has the potential of major deficit reduction.

Though process is important, the use of control mechanisms demonstrates that process is still no substitute for making policy decisions. Reducing the deficit, let alone balancing the budget, is first and foremost a matter of policy choices, although those choices may be limited by economic conditions.

The Omnibus Budget Reconciliation Act of 1993

The election of Bill Clinton as President and his emphasis on deficit reduction has put the national spotlight once again on the Congressional budget process. For the first time in 12 years it would no longer be possible to explain budget gridlock as the result of partisan politics between Congress and the President.

Newly-elected House Budget Committee Chairman Martin Olav Sabo (D-MN) along with Senate Budget Committee Chairman Jim Sasser (D-TN) seized the opportunity to usher in an era of cooperation and mutual support between the House and Senate and especially between the President and the Congress. No one believed, however, that the task would be easy. In fact the razor-thin margins by which the 1993 Budget Resolution and the 1993 Reconciliation Act passed the Congress suggest how difficult it is, even with an administration of the same party that controls Congress, to construct a budget plan that can gain widespread support.

The Democrats in the House and Senate, acting with *no* Republican support, enacted a \$496 billion deficit reduction package. The reconciliation conference agreement passed by only two votes in the House of Representatives (218–216) and a 50 to 50 tie in the Senate had to be broken by Vice President Albert Gore's "aye" vote. Of significance here, however, is that *control* mechanisms were essential to the agreement.

The control mechanisms already in place before the 1992 Presidential election continue in place. In 1993 the appropriation caps were extended through 1998 on all discretionary spending. Also continued was the provision allowing the Congress to avoid the caps if the President declares an emergency such as he did for the midwestern flood victims in the summer of 1993. And every increase in entitlement spending or any tax reduction must be paid for by increasing revenue or by reducing entitlement spending or by some combination of the two. This is a carryover of the "pay-as-you-go" provision of the 1990 Reconciliation Act.

As part of the rule for consideration of the conference agreement of the 1993 Reconciliation Act in the House, and in combination with an executive order from the President, the House and the administration initiated a new procedure called "entitlement review." The Senate did not consider or include this procedure in the conference agreement because doing so would have violated both the Byrd Rule and a rule barring inclusion of provisions under the jurisdiction of the Senate Budget Committee in a measure not reported by that committee. (Violation of the latter rule would have made the entire conference report subject to a point of order.) Both rules would have required a 60-vote majority to waive—a vote margin impossible to achieve at the time.

Under the new procedure, when the overall entitlement target is breached the President is required to propose in his January budget measures that will cover the overage or explain why it is not necessary or advisable to offset the overage. The House Budget Committee is required to act on this proposal in its first budget resolution. The committee can address the overage in any manner it decides, provided that it proposes as least as much deficit reduction as the President. Further, if the Budget Committee proposes raising the target instead of offsetting all or part of the overage, the House must vote in favor of the target increase before the budget resolution can be taken up. The objective is that this procedure, along with the extension of "caps" and "pay-as-you-go" provisions, will continue the basic budgetary policy objectives and fiscal outcomes set forth in the 1993 Budget Resolution and the 1993 Reconciliation Act.

The many recent revisions to the congressional budget process that have occurred, and the almost total preoccupation with the deficit, suggest that additional changes are likely to occur. Some version of biennial budgeting is one already being reviewed. Whatever these future changes may be, one thing is certain: Congress no longer is an idle bystander to the President or a rubber stamp in formulating fiscal policy. Congress definitely has succeeded through the budget process in giving itself at least a meaningful voice in formulating and controlling budget decisions.

Budget Glossary

Appropriations: The thirteen bills reported by the Committee on Appropriations, which determine the level of funding (budget authority) for discretionary spending programs.

Authorization: A substantive law that sets up or continues a Federal program or agency. Authorizing legislation is normally a prerequisite for appropriations. For some programs, the authorizing legislation itself provides the authority to incur obligations and make payments, see "direct spending."

Backdoor spending: Spending that avoids the normal appropriations process such as granting contractual obligation authority to a Federal agency prior to any appropriation.

Baseline: A benchmark for measuring the budgetary effects of proposed changes in Federal revenues or spending with the assumption that current budgetary policies are continued without change. As specified in the Budget Enforcement Act of 1990, the baseline for revenues and entitlement spending generally assumes that laws now on the statute books will continue. For discretionary spending, the projections for a fiscal year are generally based on the appropriations for the prior fiscal year, adjusted for inflation.

Budget authority: Authority provided by law to incur financial obligations that will result in spending of Federal Government funds. Budget authority (BA) is a synonym for "funding." BA is provided for both discretionary and direct spending programs. Offsetting collections, including offsetting receipts, constitute negative budget authority.

Budget deficit: Amount by which budget outlays exceed budget revenues during a given period.

Budget resolution: A concurrent resolution, passed by both Houses of Congress but not requiring the President's signature, that sets forth a congressional budget plan for the next 5 years. The plan must be carried out through subsequent legislation, including appropriations and changes in tax and entitlement laws. The Congressional Budget Act of 1974 established a number of mechanisms that are designed to hold spending and revenues to the targets established in the budget resolution.

Direct spending: Spending that is not controlled by discretionary appropriations. The Budget Enforcement Act of 1990 defines this term as (a) budget authority provided by law other than appropriation acts; (b) entitlement authority (including mandatory appropriations); and (c) the food stamp program.

Discretionary spending: Spending appropriated and controlled by the 13 annual appropriation bills. Discretionary spending is divided among three categories: defense, international, and domestic.

Defense discretionary spending consists primarily of the military activities of the Department of Defense, which are funded in the defense and military construction appropriation bills. It also includes the defense-related functions of other agencies,

such as the Department of Energy's nuclear weapons programs.

International discretionary spending encompasses spending for foreign economic and military aid, the activities of the Department of State and the U.S. Information Agency, and international financial programs, such as the Export-Import Bank of the United States.

Domestic discretionary spending includes most government activities in science and space, transportation, medical research, environment protection, and law enforcement, among other spending programs. Funding for these programs is provided in 10 of the annual appropriations bills.

Discretionary spending caps: Ceilings on budget authority and outlays for discretionary programs as defined by the Budget Enforcement Act of 1990. For fiscal years 1991 through 1993, the caps are divided among the three categories of discretionary spending—defense, international, and domestic. For fiscal years 1994 and 1995, there is one cap for all discretionary spending. Discretionary spending caps are enforced through congressional rules and through sequestration procedures.

Entitlements: Programs that make payments to any person, business, or unit of government that seeks the payments and meets the criteria set in law. The Congress controls these programs indirectly by defining eligibility and setting the benefit or payment rules, rather than directly through the annual appropriation process. The best-known entitlements are the major benefit programs, such as Social Security and Medicare; other entitlements include farm price supports and interest on the Federal debt.

Fiscal policy: The Government's choice of tax and spending programs, which influences the level, composition, and distribution of national output and income. An "easy" fiscal policy stimulates the growth of output and income, whereas a "tight" fiscal policy restrains their growth. Movements in the standardized-employment budget deficit constitute one overall indicator of the tightness or ease of Federal fiscal policy—an increase relative to potential GDP suggests fiscal ease, whereas a decrease suggests fiscal restriction.

Fiscal year: A yearly accounting period. The Federal Government's fiscal year begins October 1 and ends September 30. Fiscal years are designated by the calendar years in which they end—for example, fiscal year 1991 began October 1, 1990, and ended September 30, 1991.

Gross domestic product (GDP): The total market value of all goods and services produced domestically during a given period. The components of GDP are consumption, gross domestic investment, government purchases of goods and services, and net exports.

Off-budget: Spending or revenues excluded from the budget totals by law. The Budget Enforcement Act of 1990 requires that the revenues and outlays of the two Social Security trust funds be

shown as off-budget. The Omnibus Budget Reconciliation Act of 1989 took the Postal Service fund off-budget.

Outlays: The liquidation of a Federal obligation, generally by issuing a check, cash or a promissory note. Outlays may be for payment of obligations incurred in previous fiscal years or in the same year. Outlays, therefore, flow in part from unexpended balances of prior-year budget authority and, in part, from budget authority provided for the current year.

Reconciliation: A process the Congress uses to make its tax and direct spending legislation conform with the targets established in the budget resolution. The budget resolution may contain reconciliation instructions directing certain congressional committees to achieve savings in tax or spending programs under their jurisdiction. Legislation to implement the reconciliation instructions is usually combined in one comprehensive bill. As a general rule, decisions on defense and nondefense discretionary programs are determined separately through the appropriations process, which is governed by allocations in the budget resolution.

Sequestration: The cancellation of budget authority, if needed, to enforce the Budget Enforcement Act of 1990. Sequestration is triggered if the Office of Management and Budget determines that discretionary appropriations breach the discretionary spending caps, that direct spending and receipt legislation increase the deficit, or that the deficit exceeds, by more than a specified margin, the maximum deficit amount set by law. Failure to meet the maximum deficit amount would trigger spending reductions from non-exempt programs. Changes in direct spending and receipt legislation that increase the deficit would result in reductions in funding from entitlements not otherwise exempted by law. Discretionary spending in excess of the caps would cause the cancellation of budget authority within the appropriate discretionary spending category.

Trust fund: A fund, designated as a trust fund by statute, that is credited with income from earmarked collections and charged with outlays. Collections may come from the public (for example, taxes or user charges) or from intrabudgetary transfers. More than 150 Federal Government trust funds exist, of which the largest and best known finance major benefit programs (including Social Security and Medicare) and certain infrastructure spending (the Highway and the Airport and Airways trust funds). The term "Federal funds" refers to all programs that are not trust funds.

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Mr. SPRATT [presiding]. Chairman Sabo, we have had one bell ring; and I take it Mr. Obey left, so he is coming back.

Mr. SABO. I can easily come back.

Mr. SPRATT. OK, fine. Let me just ask one question, and I will turn to the other Members and give them an opportunity.

With respect to entitlements review, would you give us a quick perspective on what happened to the first year in which that law was in operation? We have had one fiscal year arrive, and I believe we had an underage rather than an overage with respect to the last fiscal year.

Mr. SABO. The total spending was less than the targets, so it did not kick in the process, and that was for a variety of reasons.

I think some of the health care programs are coming in, particularly, below the totals, so that the review process did not kick in, because in total we were under the target, which is good news. On the other hand, if it had kicked in, it would mean that the President and the Congress would have to deal with the issue immediately.

I think historically the opposite of what happened this year has been the case, and that is that entitlements have come in above estimates, and the Congress sort of and administrations avoided it until every several years. You then have a major look at entitlements and then the problem would have gotten so much bigger, that it is more difficult to deal with.

I might say I think it does have relationship to the second issue that your committee isn't currently looking at, and that is the question of biennial budgeting. Clearly, the entitlement review process is one that is geared toward annual budgeting. I think if the judgment of the Congress is to move to biennial budgeting, it makes the entitlement review process more difficult.

Mr. SPRATT. Because we only get a bite of the apple every 2 years, so if there is an overage, you are 2 years late in finally addressing the overage.

Mr. SABO. That is right.

Mr. SPRATT. In the interest of letting other Members ask questions, let me turn next to Mr. McCandless.

Mr. SABO. Do you want us to go vote and come back?

Mr. MCCANDLESS. Mr. Chairman, may I offer a suggestion for the committee? We are probably somewhere around 8 minutes into the vote.

Mr. Sabo, as a key element of what it is we are holding this hearing on, I would like an opportunity to discuss some very academic types of things with him; and if it would be possible, maybe we could recess to go vote now.

Mr. SPRATT. Sure. Let's go ahead and briefly recess, if everyone would try to get back as quickly as possible, we have a long agenda today. We will pick up as soon as we return from the vote.

[Recess taken.]

Mr. CONYERS [presiding]. The subcommittee will come to order.

We were called to a series of votes on the floor and interrupted the presentation of our first witness, Chairman Marty Sabo of the Budget Committee. Please proceed, sir.

Mr. SABO. I am through. I am ready for whatever questions people might have.

Mr. CONYERS. We have about a half dozen very important notions that would drastically revise the budget reform process. Could you give us, Chairman Sabo, your views on some bills that have been put before us today, which recommendations are least acceptable? I want to get some idea of a ranking, if you are able to put them in some kind of order, in terms of how your committee would view these matters.

Mr. SABO. I would not presume to speak for our committee because I expect there are a variety of opinions there. My own judgment is the most difficult problem we have working within our current 5-year limitation on how we project budgets is the impact of the Byrd rule on the reconciliation process. To me that is a major problem.

How we solve it clearly is difficult because it involved a change in the Senate process. I intend to introduce a bill after recess saying that the Byrd rule does not apply to conference committees. That is my fundamental problem. Whatever rules the Senate has for their own operation that is their choice. But I have real problems when that Senate rule gets in the way of us dealing with the real change in the substance in conference reports. That was a major problem that we had in terms of our conference report a year ago.

Second, thinking through how we deal with issues that go beyond the 5-year window of budget resolutions deal is a significant question and somehow we have to think it through. I have no particular suggestions for you on how to deal with it at this point. But I think it is a real problem.

I think we should take the entitlement review we passed last year, making that law so it applies in the Senate also as it does in the House. I thought that was a significant reform and a positive movement forward. As it relates to the baseline, some of the proposals I have seen simply say that we also have to look at what actual spending was last year compared to this year.

I have no problem with that. But some people suggest that current baseline projections are totally irrelevant, and I think they are wrong because I think that is part of measuring what the impact of Federal budget policy is.

The proposal on lockbox I think is a very poor proposal, to put it mildly. It does what the Senate did with the Byrd rule to the budget resolution by letting each of the Houses unilaterally amend the budget resolution, this makes no sense.

Mr. Obey will speak of the problems that it creates for the appropriations process and those are endless, the problems that it creates there. I am not sure what some of the other proposals are. The enhanced rescission really deals more with the appropriations process than it does with the budget process.

I would, however, also suggest that the fundamentals of our system of government are different—I often in describing our system of government say you first must start with the understanding that we are not a parliamentary system. We are one with three branches of government, executive, legislative, and judicial, and within the legislative we are a bicameral system, not a unicameral system.

I would suggest your committee at some point hold hearings on whether we should go to a unicameral parliamentary system because there are so many of those proposals to deal with problems with the efficiency of a unicameral parliamentary system, many of these folks want to diminish the legislative branch versus the executive. Well, I have problems with that in the context of the type of system of government we have.

Historically, I suppose this may be a conservative approach in terms of preserving the legislative versus the executive. But for folks who want to totally simplify the system, make it easily understandable and lessen the role of the legislative branch, the simplest way to do that would be to go to unicameral parliamentary system where there is simply one house, where the executive comes from the legislative, the legislative body deems much of its power to the executive that it has chosen, and has a much smaller and much less involved legislative branch. That is how I understand most parliamentary systems work.

I am not advocating that, but many of the proposals I see for change today, try to make this complicated and intricate relationship of government we have in this country more simple. I really think the real proposal some of those advocates should look at is the unicameral parliamentary system, and abolish the cabinet and the President and the Vice President, and have House elections and select a prime minister and the executive from whomever controls that one body in a parliamentary system. That would be real reform—change in our system. Not necessarily the word “reform” but it would be real change. So you might view some of these changes in that perspective.

Mr. CONYERS. Well, that is the only one we don't have in the list.

Mr. SABO. I really think that would be the way to get at some of these ideas, because we are not a simple system.

Mr. CONYERS. We may have jurisdictional problems on taking that one up.

Mr. SABO. I think that would come in your jurisdiction, wouldn't it?

Mr. CONYERS. I am not sure, but I hope not.

Let me ask about the entitlement review mechanism. You had one in the House bill that was deleted in conference. It was then put forward as an Executive order. How do you think this process is working? How it has affected the level of entitlement spending.

Mr. SABO. Well, this year the way it was established last year we adopted a ceiling. The estimates that were contained in the President's budget is modified by the congressional actions in the budget reduction bill last year; and entitlement spending currently is coming in under those caps. And if the opposite were happening, that process would have been kicked in, but it is working. We have had success.

The actual expenditures are coming in lower than estimates. And that, frankly, is good news. I think some people view it as bad news, but I think it is good news so we have had not to use the mechanism.

Mr. CONYERS. The entitlements that are creating the deficit problems are really in the health care area such as Medicare and Medicaid. What happens to entitlement spending for these programs is

really going to be a function of what kind of health care reform we finally enact. Do you have an observation about the assessment of these health care entitlements?

Mr. SABO. You are absolutely right. When you look at what is projected to grow over the next 10 years, now I will switch to one of the other measurements we use, measuring expenditures in relationship to GDP, discretionary spending will continue to go down as a percentage of gross domestic product. The retirement programs will stay roughly level. Social Security and the Federal retirement programs are not growing as a percentage of the total economy over the next 10 years.

On the other hand, don't hold me to these exact percentages, but I think health care expenditures in the Federal Government today are 3.6 or 3.7 percent of gross domestic product. That is where the real growth is occurring over the next 10 years. And that is key to the debate on health care.

How we do it and what its long-term impact is on expenditures. I suppose it is also a classic example of the problem we have on short term versus long term. Clearly, the theory behind the President's program is that you make some reductions in existing programs, and do a variety of other things, sharing employer/employee responsibility to get the universal coverage, which is relatively—has to be relatively deficit neutral over the first 5 years with the expectation it lowers long-term costs. That is the approach that you need to do it.

Frankly, another alternative would be not to deal with the totality of the problem but simply reduce reimbursements under Medicare and Medicaid. You would have more savings in the 5-year period, but it might complicate and increase your long-term expenditures.

Mr. CONYERS. Would the members of the committee indulge me?

I had intended to have both chairmen make their presentations and then we question them. Now that Chairman Obey is here, what I would propose to do, Dave, is have you make your presentation and then we will take all the questions at the same time. Would that be more feasible way to operate?

STATEMENT OF HON. DAVID R. OBEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WISCONSIN

Mr. OBEY. That is fine with me, Mr. Chairman. I don't have any voice left anyway.

I thank you for the opportunity to testify. Unlike Mr. Sabo, I am not here to discuss the process. My favorite philosopher is Archie, the cockroach, and Archie said a long time ago, he said what matters is not so much what system men have, what matters is what they do with whatever system they happen to have.

I think that is simply another way of saying within the budgetary context that what defects we have in budgeting are traceable much more to the lack of political will than to the lack of pristinely pure processes. And I would simply say that if you have been around here as long as you and I have, you have seen an awful lot of proposals that have evaporated in smoke as human motivation and ingenuity has managed to get around every single one of those processes that have been put in place of.

I simply want to make the point that I understand why we have the pressures for all of these procedural changes. Because people are unhappy with the run-up of Federal debt that we have had over the last decade and more.

But to put this in perspective, one must understand that in 1946 our debt as a percentage of GDP was over 100 percent of annual GDP. That declined on a consistent basis until 1981 when it got down to 25 percent of annual GDP. We then had some rather significant fiscal choices made in the 1981 through 1985 period. And as a result today, we are running at 52 percent of GDP in terms of our national indebtedness.

It took a long time for us to be able to get the attention of the public, that this was in fact happening. And the ironic thing is that about the time we got the attention of the public that was happening, things have significantly turned around. If you take a look at the numbers, you will see that, as Mr. Sabo indicated, our debt to GDP ratio which in 1982 was over 6.5 percent, that is now down to—in 1992 it was down 4.9 percent. In 1995, it is 2.4 percent, and it will be down to 2.2 percent in 1996.

That is a considerable change in the right direction, and most of the members of this committee voted for those changes. I think you have every right to take credit for it.

But I think you have to recognize that with all of that progress, we are going to see that again start to dip upward at the end of this coming decade. That is what everybody is concerned about. It is not going to dip upward very fast, but it is going to dip marginally upward.

And that is why I think you have a lot of pressure on us here today. If you take a look at the chart attached to my testimony, which is from CBO's document on the budget outlook, page 29, you will see that we have for the next 4 or 5-year period virtually a freeze on domestic—I mean on all discretionary spending. In fact, in real dollar terms over that 5-year period, you will have a reduction in purchasing power of every dollar that is appropriated for discretionary funding of over \$50 billion.

Now, none of us knows where those savings are going to come from. I talked to Mr. Perry 2 days ago. He was describing to me the force level reductions which he felt would have to take place unless one of the few remaining—one or two of the few remaining new weapons systems which we are now contemplating in the modernization budget is in turn eliminated.

I happen to favor that. There are an awful lot of people in this Congress who don't. But I think it is necessary to understand that discretionary spending is not part of the problem.

In fact, if you take a look at what has happened to discretionary spending in the sixties, it was roughly 13 percent of GDP; 1980, 1985, both years, that was riding at about 10.5 percent of GDP. For 1995, that will be down to 7.7 percent of GDP and by 1998 it will be down to 6.7 percent of GDP. That is approximately half what it was in the sixties.

If you take a look at my testimony on page 4, I try to point out that the caps will hold discretionary spending; by 1998, they will be holding discretionary spending to a figure \$65 billion below the level that would be allowed for inflation, for instance, but Medicare

and Medicaid will be above that number by \$96 billion. That is a 13 percent growth above the inflation adjustment for the two entitlement programs that are causing the budget problems.

As Mr. Sabo has indicated, when you disaggregate even the entitlement problem and take a look at the specific programs, the two problems that—the two problems that are the problem are Medicaid and Medicare. And if that is not addressed in health care, it doesn't mean diddley what you do in everything else because all of the squeeze that we have been able to put on discretionary spending amounts to only about two-thirds of the increase that you are going to have in Medicare and Medicaid over that same time period.

So I would urge people to look—to fix the problem where it exists.

Second, I would like to turn to the issue of lockbox. Now, the idea behind lockbox appears to be that there is somehow this huge pot of money which is cut out of spending by the House each year in action on the floor which needs to be locked away and used for deficit reduction. But which, instead, it is thought, escapes to new spending.

I would like to disabuse people of that view. The fact is that appropriations have lived within the caps that have been assigned to them every year that we have had those caps. In fact, we have been below those caps in virtually every year.

What appears to be behind lockbox is that supporters seem to feel that even after a deal is struck on the budget process, on the budget resolution, between those forces who want additional spending and those who want less, even after that deal is struck, the supporters of lockbox seem to feel that they ought to have the ability on each and every action that then occurs in the House on appropriations to again further adjust the agreed-amount for the discretionary cap that you have in the budget resolution. I do not think that is a fair process.

You get a deal in the first place because people with competing views, competing pressures, competing kinds of districts reach a common conclusion about what the macroeconomic choices ought to be for the coming year. And it seems to me that once we reach that decision, it is unfair to allow one group to walk away from that decision time and time again while the other group is stuck with that decision. That is not the way you gain consensus in a legislative body.

The second point I would make is that if you do adopt the lockbox in the appropriations process, by definition, you make it impossible to go to conference because you cannot reach agreement unless you can unilaterally dispense with the Senate, which I would greatly love to do on many occasions, but unless you can do that, the fact is that you cannot go to conference because as Mr. Sabo says, you unilaterally in one House lock in a specific number.

And if you apply it to Congress, it is like the Byrd rule. It means that you become dysfunctional in conference.

The essence of a conference is that the two Houses each have to give up a bid of their position, and if one House unilaterally defines away the possibility of compromise, you have a prescription for putting the entire budget on a continuing resolution and you have a

process which creates perverse incentives in the appropriations process because what it means is that committee chairs right now, for instance, because we look at outlays, as well as B.A., we now have the perverse result that choices are often made to fund money—or to put money into program that spends out at a slow rate rather than a fast rate which results in people looking at the outlay rates rather than the program quality.

And I think you get judgments which are of less quality than you got 15 years ago when we were not looking at outlay ceilings. But that subjective judgment aside, if you have the lockbox process, you give an appropriations chair the incentive to put your money in safe, popular programs rather than the best programs.

Example, space station. I don't happen to believe in the space station. I don't intend to support the space station, but the fact is that if you have the lockbox principle and there is a high risk that you are going to adjust the cap downward if any amendments are adopted to the floor, tactically what subcommittee chairs will be forced to do is to take in the HUD bill, for instance, to take the money which is at risk and put it in safer items, VA hospitals, places where I would like to put that money.

But you would create a perverse incentive in which the House would probably not even have an opportunity to make the choice that it is going to make today or tomorrow on the space station because they would be looking for safe ways to tuck the money away so that you can then do the real business in conference. And you would in the end force people back to the good old days when a few good old boys sat in conference adjusting the bill to reflect what they really wanted to do and you would make floor action even less meaningful than it is today. And I don't think that is what you want to do.

The other point I would simply make is that you are attacking a problem that does not exist. There were 27 cutting amendments adopted on the House floor to appropriations bills in the last session. The Senate-House conference accepted 21 of them; 21 out of 27. That is a 70 percent win rate.

Now, the supporters of lockbox seem to feel that because the exact dollar amount of those reductions was not reflected in the appropriations process, that means the money was stolen and used for some other purpose. I would point out that is simply not the case.

We cut \$615 million by the acceptance of those 21 amendments in conference. But you had items like the supercollider and ASRAM, which had termination costs of \$500 million. And so because you had to pay the termination costs in order to effectuate the elimination of those programs, you could not wind up producing the dollar savings which the amendment authors pretended they were making by their amendment, and therein lies the apparent numerical discrepancy between the amount people thought they were cutting and the amount they actually wound up cutting.

Now you do have another suggestion. People say, well, maybe you can move this issue to the budget process, and maybe you can have 50 or 100 amendments to the budget process on specific programs and you can adjust the caps downward every time one of

those is adopted. I think that is exactly the worst way to proceed for two reasons.

First of all, because you then inflate the apparent importance of a vote, which after all, takes place on a product which is not signed by the President. And second, you, in fact, force a whole range of appropriations decisions into the budget process so they are made beforehand before you have hearings, before you have public involvement and before you have public testimony, before you have negotiation between forces around here on those individual programs, and you also duplicate in the budget process what you are supposed to do in the appropriations process. That makes no sense at all in my view.

I would make one other point. And I mean no disrespect when I say it. But I am looking at Mr. Zeff's testimony. And among other things, his testimony says as follows: Programs are harder to kill than cockroaches. They are always kept alive in conference with another billion dollar tax break for someone. I see nothing in the A-to-Z process that goes after tax expenditures and I think if you are going to go after abuse around here, you ought to.

Examples: you do have early writeoff for exploration and development costs in energy. That costs \$8 million in increased deficits in fiscal years 1993 to 1999. The depletion allowance, a billion dollars give-away every year. There is nothing in A to Z that gets to that. Forestry, \$4 billion in tax giveaways between 1993 and 1999; nothing gets at that. Tyson and Purdue, two of the largest chicken processors in the country are considered, "family farms," under the tax code. That means they benefit from special rules to the tune of \$1.2 billion. I see nothing in A to Z that gets at tax preferences.

Second, Mr. Zeff says people are tired of hearing that pork barrel projects are buried in larger bills and can't do anything about it. Let's give them a forum where each spending issue can be brought up for a roll call vote.

I would ask Mr. Zeff where have you been during the appropriations process? Where have your amendments been? You have never sought to offer an amendment to an appropriations bill. You have never gone up to the Rules Committee to ask to have one made in order. Every single appropriations bill but two, Foreign Operations and legislative branch bills, have been open to amendment at any point. You can offer any amendment you want. Where have your amendments been?

It seems to me that you have a process now which provides an opportunity to amend the living devil out of appropriations. You can go after any project you want. You can offer a dollar amount designated for that project and you can say that if that amendment passes, that is the project you are aiming at.

The Congress is not about to walk away from the House's judgment on that. But if you want a process under which you would have take out spending in an appropriation process, offer the amendments. Why do we need a special process to do what you have the right to do now, but have not sought to do? Why beat up on a process which you have never tried to address? It just seems to me that before we blow up the ability of the House to do its business in an orderly way, I would urge that you consider that.

I would also urge, Mr. Chairman, that you consider legislation similar to A to Z that I have introduced. We would provide for the system 56 hours of amendments on discretionary spending that is provided for in A to Z with one caveat: Members would be asked to offer amendments that would either reduce or eliminate projects in their own districts. I call it the antihypocrisy deficit effect. I will be happy to start with a project in my district. I guarantee you. Project Elf. I put it on the table right now.

But it seems to me that before the institution is asked to disrupt orderly processes which are here for a reason, before they are asked to totally ignore the ability of committees to allow probable comment on choices before they are made. It seems to me that people ought to try to use the processes which are now before them. So, I have a couple of other points I would like to make, but in interest of time I think I will simply stop and open for whatever comments or questions you might have.

[The prepared statement of Mr. Obey follows:]

TESTIMONY OF HON. DAVID R. OBEY, CHAIRMAN
HOUSE COMMITTEE ON APPROPRIATIONS
BEFORE THE
HOUSE GOVERNMENT OPERATIONS COMMITTEE
SUBCOMMITTEE ON LEGISLATION AND NATIONAL SERVICE ON
BUDGET PROCESS REFORM
June 29, 1994

Mr. Chairman, I appreciate the opportunity to testify before these important hearings. Despite the very substantial progress made during the past year in turning around the fiscal condition of the U.S. government, there has been a host of new proposals for changing the process by which budgetary decisions are made. It is up to this committee to weigh these proposals carefully, to stimulate debate and encourage a broader understanding of what these changes might mean to the quality of decision making in this institution.

Experience has shown us that no where is the law of unintended consequences more applicable than when it comes to changes in the legislative process--particularly in matters of budgeting. So this is a very tricky business and the care with which the responsibilities of this committee are discharged may very well have a lasting impact on how well the House conducts the people's business.

Ultimately, this committee must determine whether shortcomings in budget policy are rooted in failures in process or in failures of political will. If you determine that procedure is substantially to blame (and I don't believe that for a moment), you must determine whether the proposed changes will improve or diminish the quality of the process.

The burden of proof always lies with those advocating change. The committee would do the institution and the general public a great disservice if it were to allow itself to be a party to efforts that would change our procedures merely for the sake of change--or worse, for the sake of changing process as a cover for those who seek the rhetoric of deficit reduction but are unwilling to take programmatic action to achieve it. Change for either of those reasons would contribute to the already high degree of public confusion about the nature of our fiscal problems and reduce rather than enhance the accountability of this institution to the American public.

First I want to make it very clear that I think the American people have endured a fiscal nightmare over the course of the past decade and a half. Our affairs have not always been arranged poorly. The United States made very good progress in reducing public debt relative to its total income and output during most of the period following World War II. Between 1946 and 1981, public debt dropped as a percentage of GDP from more than 100% to only slightly above 25%. But in 1981 we engaged in a massive redirection of the nation's fiscal policy. Large tax cuts were adopted at the same time that a major military buildup was undertaken. As a result of that decision, public debt as a share of GDP doubled in the space of about a dozen years. At the beginning of fiscal 1994, it totaled \$3,240,000,000 or nearly 52% of GDP.

These policies not only ran up the national debt and diverted a major share of future federal budgets from public investments to debt service but they had profound effects on the overall health of the nation's economy. They generated record high real interest rates which made it impossible to create or expand businesses with average or even above average return on capital. They played a large role in creating an extraordinarily strong dollar which clobbered the ability of even our most efficient industries to compete in world markets.

The public has now finally awakened to the terribly misguided course which we followed in this country for more than a decade. The concern and outrage which resulted from that belated awakening is responsible for the proposals before us today.

The fact is, however, that the misguided economic policy that produced the outrage has been substantially changed. Public debt as a percentage of GDP is now declining. The annual deficit has dropped from 4.9% of GDP in fiscal 1992 to 2.4% in fiscal 1995 and is expected to drop to 2.2% by fiscal 1996. Most of you voted for the changes that produced that turn around.

This change in fiscal policy allowed the Federal Reserve to follow a more accommodative monetary policy and sparked the very substantial recovery which we are now enjoying.

But there is reason to be concerned about where we are headed long term and it is that concern, rather than the effectiveness of recent policies which should be the object of our attention. While the public debt will decline as a percentage of GDP over the next several years, it will not drop rapidly and by the end of the decade it will begin to rise again. The deficit will stay below 2.5% for several years, but it will begin to rise slightly by the end of the decade.

I would encourage you to study the chart on page 29 of the *Economic and Budget Outlook: Fiscal Years 1995 to 1999* by the Congressional Budget Office. I think if more people understood the information on this one page, the direction of proposed process reform might be quite different. Under the caps imposed by last years budget resolution discretionary spending does not increase markedly even in nominal terms. That means no adjustment for inflation. That means any time we permit a military or civilian pay increase-the cost is absorbed out of program. In real dollar terms, discretionary spending will decline by \$50 billion or by nearly 10%. The new targets contained in Exon Grassley have raised that figure by an additional billion

We don't know where that \$50 billion in savings will come from. I spoke with Secretary Perry earlier this week and he believes that defense will either force cut backs in force structure or eliminate several of the limited number of new systems still under way. Chairman Murtha will give you a clearer picture of those choices later in these hearings.

Domestic discretionary spending is being cut back almost government wide. We are cutting back efforts to develop new sources of energy, we are cutting back our highway programs, we are cutting in the area of education and health research. We have imposed very deep cuts in soil conservation, meat and poultry inspection, nuclear waste cleanup and IRS computer modernization.

As a consequence the domestic side of our government will not be keeping pace. As our country's population grows and as our economy expands the government activities and services which ultimately support the economy will be shrinking.

We will see the effects in terms of a less adequate transportation system, a slower pace of scientific discovery, fewer new products and industrial processes, a less pleasant and healthful environment and a slower pace of medical discovery.

But how is it possible that all of these things could be declining and the federal deficit could continue to be a problem. The answer is simple. The discretionary programs represent only a third of the budget. Defense and domestic combined equal just \$540 some billion in outlays in a budget that today totals \$1.5 trillion and will grow to \$1.75 trillion by Fiscal 98. You can hit discretionary spending very hard and not have much impact. That is what we have in effect been doing.

In fiscal 1985, discretionary spending represented 10.5% of GDP--the same level as in 1980 and substantially below the 13% of GDP which discretionary spending represented in the 1960s. In the coming year discretionary spending will account for less than 7.7% of GDP. Outlays from discretionary spending in the coming year will be 1.5% below current services, nearly \$3 billion below prior year levels. By 1998 discretionary spending will drop to less than 6.7% of GDP, one-half the level of the sixties.

It is almost a cliché but it is also the truth. The growth is in one area of the budget and one area alone--entitlements. Further, a closer examination of the CBO *"Outlook Chart"* shows that it is really in one area of entitlements.

Lets take the fiscal 1994 outlays for discretionary spending, for Medicaid and Medicare and for all other mandatory spending and give each area enough to deal with inflation, but no more. CBO projects on page xvii that prices will rise by 12.66% between now and fiscal 1998. Providing only an inflation adjustment would shave about \$80 billion off the projected 1998 deficit. As a result we could expect a deficit of about \$100 billion or perhaps a little less. At that level we would be substantially reducing the public debt as a share of the overall economy on a yearly basis.

But federal spending will grow faster than the rate of inflation because of explosive growth in one area. The caps hold discretionary spending at \$65 billion below the level allowed for by the inflation, Medicare and Medicaid will increase by \$96 billion. That is 39% growth above the inflation adjustment. The other mandates will grow as well but not by nearly as much. They will be \$25 billion or about 5% beyond the adjustment. So all the squeezing in the domestic programs is offsetting only about two-thirds the growth in Medicaid and Medicare. The most disturbing aspect of this trend is that these health cost increases are not just affecting government. The same increases are killing private businesses and squeezing individual households.

But the main thing I wish to impress upon you as the Chairman of the Appropriations Committee is that we already have a plan that squeezes discretionary spending very very hard. The reason that we are not making more progress is the lack of cost controls in other areas.

Now let me talk about the specifics of the so-called "lock-box" proposal. The principal purpose of the "lock-box" appears to create additional downward pressure on the overall level of discretionary spending. As I have already pointed out, the current level of downward pressure is already quite intense. I would also point out that it is highly effective. In every single year since we began having caps the appropriations bills have provided less in both budget authority and outlays than was permitted by the caps. Prior to that time the appropriations bills consistently remained below the legally non binding targets contained in the budget resolutions. There is simply no case to be made that the caps on the budget resolution are not effective. They have been---100% of the time.

While I believe that there is a strong case that the constraints on discretionary spending are already too severe, there is a simple, effective option under existing rules for members who disagree with that assessment. All they need to do is work for a budget resolution containing lower caps or failing that, offer a substitute or an amendment to the budget resolution lowering the caps.

What members appear to be seeking with the "lock box" is to vote for one level of discretionary spending in the budget resolution and then to revise that level every time Appropriations bills are considered. There are several reasons that such a procedure would be bad process.

First, any budget resolution wins adoption because members of different view points on the appropriate level of taxes, entitlements and discretionary spending get together on a compromise which represents more spending than some would wish and less than supported by others. Chairman Sabo would be better able to address this issue than I, but it would seem remarkable to me if members who were concerned about the adequacy of the amounts contained in a proposed resolution would agree to support it if those wishing lower amounts could walk out on the deal the first time an appropriation bill came to the floor.

Second, while there are a number of "lock box" proposals, none deals satisfactorily with the unhappy fact that we are members of a bi-cameral legislature. One proposal places all reductions in a deficit reduction trust fund contained in each bill. That portion of the bill is not amendable by the Senate. That is a precedent which I would strongly support but I am afraid that it tells us more about how well these proposals are thought out than what is actually possible in terms of our ability to dictate the prerogatives of the other body.

Another approach would be to simply reduce the allocation of the subcommittee which lost a floor amendment in which ever body the amendment was lost. The problem with that approach, is that it essentially sets up a one house veto on major spending items. If the F-22 is supported by the House but defeated in the Senate, the Senate Defense Subcommittee allocation would be reduced by the amount amendment cut. That would literally make conferences impossible because the latitude for working out a compromise would be eliminated. It would increase the portion of the government funded through a continuing resolution. Ultimately, the only way in which the difference between the two bodies on such appropriation matters could be resolved, would be if the body supporting the higher amount yielded completely to the body that had accepted the cut. What ever you think of that outcome from a policy standpoint, it abrogates the electoral responsibilities of one body or the other.

Thirdly, it distorts the decision making process by creating a distinction between cuts that are made in committee and those that are made on the floor. A subcommittee chair would have an incentive to take controversial proposals out of the appropriation bills in committee and use the savings to fund an alternate item that members would not wish to vote to cut. One example of this is a vote that we will have later this week on the Space Station. I do not support it and I hope we don't fund it. Quite frankly, I would rather see the money go back to the Treasury. But I do believe that the House should have the opportunity to vote on it--one way or the other. With "lock box" there is a strong chance that issues such as Space Station would never come to the floor. The Sub-Committee would have the option of using the money in other places including VA hospitals rather than risk the possibility that the allocation would be lost all together.

Fourth, loss of the allocation would make it impossible for the committee to respond to real world budget facts of life. If a program is eliminated by virtue of a floor amendment, it can only on rare occasions provide us with 100% savings. But quite often there are legal obligations resulting from contracts which have been signed by executive agencies and for which this government stands liable. Whether we accept that responsibility and appropriate the close down costs in a timely manner or force the contractors and agencies to go to court and get a judgment against the Treasury we will eventually have to pay. If 100% of the project funding is taken from the Committee allocation it removes our flexibility to resolve these issues before they get out of hand.

My final point, Mr. Chairman, is that the implied argument of the supporters of "lock-box"--that the will of the House to cut spending is not being protected in appropriation conferences, simply does not hold water. The theory that large reductions are adopted on the House floor that need to be "locked in" simply does not square with the facts.

Last year, the House adopted 27 amendments which cut appropriated amounts in the 13 bills by more than \$865 million. House-Senate conferences agreed to accept all or a portion of the House passed floor cuts in 21 of those 27 instances. Resulting cuts totaled \$615 million or more than 70% of the House passed amounts.

The net impact of the House passed floor cuts on total appropriation levels was much less than the total amount of the cuts for one very simple reason: termination costs. Termination costs are an unpleasant but unavoidable fact of life in government finance--one that the Appropriations Committee did not create and the "lock-box" proposal cannot dispel. Two amendments that permanently eliminated large ongoing federal projects (the super conducting super collider and the advanced solid rocket motor) reduced appropriated amounts by \$437 million. Termination costs on those two projects amounted to \$500 million. But the will of the House was honored--the projects were shut down--and the long term budget implications are substantial. Everything that could have been "locked up" was.

I would also like to comment on the idea now emerging from some quarters that these problems with "lock-box" can be solved by simply moving it into the budget process. It appears that this approach would be to allow members to suggest programmatic cuts within the context of the budget debate. That is precisely what should not happen.

The central purpose of the budget process is to match income with outgo--to try to establish an overall fiscal policy in which spending is related in a rational way to revenue. Inviting a hundred non binding amendments on a program by program basis as a means of arriving at a total cap on discretionary expenditures is not only duplicative of the real work of the authorizing and appropriating committees but will lead to almost certain mischief. Nothing is more corrosive to the responsible functioning of a legislature than a process which allows individuals to posture themselves on votes that appear to have much more meaning than they in fact have. Such processes not only confuse our constituents and the outside organizations who follow our activities, but they often result in a great deal of internal confusion and disappointment.

Under Chairman Sabo, the decision making in the House Budget Resolution has become much more real. No longer is the allowance function used as a storehouse of "negative spending" to offset billions of increases added to the functional categories which cannot be funded if the discretionary caps are to be complied with. Unfortunately, the same can not be said of the process in the Senate.

But a budget resolution "lock-box" would be a major step backward. Members could pretend to defy the laws of mathematics and engage in wonderful initiatives which we would all love to see but which our commitment to control spending in the real world would preclude. By the same token we could have equal confusion created by a non binding vote on cutting a program which has been described in a pejorative manner based on no hearings, budget submission or serious review.

Mr. Chairman, let me review the major points I hope your committee will remember when thinking about the "lock-box" proposal:

1. It is aimed at increasing downward pressure on a portion of the budget which has already shrunk dramatically and is scheduled to shrink further over the next several years.
2. That portion of the budget contains defense programs and domestic investments which can have an important impact on future economic growth.
3. While there may be reason to question the certain aspects of the current budget process, that process has proven itself 100% effective in controlling discretionary spending. For those who wish even greater restraint on that area of spending, the mechanism for imposing that restraint is already in place.

4. The "lock-box" proposal is simply a means by which those who have agreed to a compromise on the budget resolution discretionary spending cap, can walk away from the compromise before the ink is dry. That cap could be revised by a new coalition of members every time an amendment is offered to an appropriation bill. Ultimately, that would destroy the prospects for getting 218 Members to reach an agreement on a discretionary cap. That would mean no budget resolution and end the very effective control which the budget process has exercised over discretionary spending.

5. The "lock-box" would create numerous procedural impediments to the resolution of differences between the two bodies. It would significantly increase the prospects that a major portion of the government would be funded each year under a continuing resolution rather than as a result of the deliberate decisions of elected representatives in the two bodies of Congress.

6. Despite arguments of "lock box" advocates, the will of the House in cutting appropriated items is being protected in House-Senate conferences under the current process.

I hope this perspective is helpful to the committee and I would be glad to answer whatever questions you and the committee might wish to ask.

The Budget Outlook Through 2004 (By fiscal year)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
In Billions of Dollars											
Revenues	1,251	1,338	1,411	1,479	1,556	1,630	1,706	1,783	1,868	1,958	2,054
Outlays											
Discretionary	543	541	547	547	547	564	582	600	619	638	658
Mandatory											
Social Security	318	335	352	370	388	408	429	450	473	497	523
Medicare	160	177	195	215	238	264	290	320	354	392	435
Medicaid	86	96	108	121	135	151	168	186	206	227	250
Civil Service and Military Retirement	62	65	67	70	73	78	81	85	89	92	96
Other	177	171	168	184	191	199	205	211	218	225	232
Subtotal	803	844	890	960	1,026	1,099	1,173	1,253	1,339	1,433	1,536
Deposit insurance	-5	-11	-14	-6	-4	-4	-3	-3	-2	-2	-2
Net interest	201	212	228	239	249	261	270	283	298	315	334
Offsetting receipts	-69	-77	-74	-78	-83	-86	-90	-94	-98	-102	-106
Total	1,474	1,509	1,577	1,661	1,736	1,834	1,931	2,039	2,156	2,282	2,419
Deficit	223	171	166	182	180	204	226	256	288	324	365
Deficit Excluding Deposit Insurance	228	182	180	189	184	208	229	258	290	326	367
Debt Held by the Public	3,462	3,642	3,822	4,021	4,218	4,441	4,686	4,961	5,268	5,611	5,995
As a Percentage of GDP											
Revenues	18.8	19.1	19.1	19.0	19.0	19.0	18.9	18.9	18.8	18.8	18.8
Outlays											
Discretionary	8.2	7.7	7.4	7.0	6.7	6.6	6.5	6.3	6.2	6.1	6.0
Mandatory											
Social Security	4.8	4.8	4.8	4.8	4.7	4.7	4.8	4.8	4.8	4.8	4.8
Medicare	2.4	2.5	2.6	2.8	2.9	3.1	3.2	3.4	3.6	3.8	4.0
Medicaid	1.3	1.4	1.5	1.6	1.7	1.8	1.9	2.0	2.1	2.2	2.3
Civil Service and Military Retirement	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Other	2.7	2.4	2.3	2.4	2.3	2.3	2.3	2.2	2.2	2.2	2.1
Subtotal	12.1	12.0	12.1	12.3	12.5	12.8	13.0	13.3	13.5	13.8	14.1
Deposit insurance	-0.1	-0.2	-0.2	-0.1	a	a	a	a	a	a	a
Net interest	3.0	3.0	3.1	3.1	3.0	3.0	3.0	3.0	3.0	3.0	3.1
Offsetting receipts	-1.0	-1.1	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Total	22.2	21.5	21.3	21.4	21.2	21.3	21.4	21.6	21.7	21.9	22.1
Deficit	3.4	2.4	2.2	2.3	2.2	2.4	2.5	2.7	2.9	3.1	3.3
Deficit Excluding Deposit Insurance	3.4	2.6	2.4	2.4	2.2	2.4	2.5	2.7	2.9	3.1	3.4
Debt Held by the Public	52.2	52.0	51.7	51.7	51.5	51.7	52.0	52.5	53.1	53.9	54.9

SOURCE: Congressional Budget Office

a. Less than 0.05 percent of GDP.

Mr. CONYERS. Well, I thank you very much, Chairman Obey and Chairman Sabo. This has been a very helpful way to begin our examination of the proposals that are before us.

Let me ask about the recommendations to eliminate baseline adjustments for programs in the budget process, and develop spending levels from a freeze. Given the tight spending caps, isn't it correct that we are already doing that? Shouldn't inflation be a cost that should be acknowledged? Isn't the current cost of continuing the level of services enacted into law in the prior year useful information that validates keeping baseline in our set of tools that we use for budget evaluation?

Mr. SABO. I think baseline serves a purpose in measuring the impact of budget policies just as the previous year is an appropriate measurement and as the GDP an appropriate measurement. Every appropriation bill normally shows three things: the prior year's appropriations, the President's recommendation, and the committee's recommendations. The budget resolution, we put together from a variety of sources we used last year. I suppose we use partially baseline. It is partially the President's recommendations.

We then have CBO reestimates of it and the chair's mark to the full committee comes out of all of that mixture. We don't start with a baseline and then reduce it in the mark, at least the ones that I have put together. Frankly, all of the discretionary spending is going to have to stay within the caps we have already adopted. That clearly is significantly below the traditional baseline.

Mr. CONYERS. How did baseline start getting such a bad rap?

Mr. SABO. I don't know, because it is one of three or four legitimate measurements of budget policy over a period of time. You know, the rhetoric is that a cut is not a cut because it is actually something other than measured by the prior year's number.

Well, in some respects that is right, but the opposite is also in some respects right. If you look at the impact of budget policy over a period of time, what has happened on CPI is relevant to the broad scale of what is happening with discretionary spending. The impact within programs can vary with the change in circumstances. And so it is less appropriate, I think to each specific program in comparison to being a measurement of broad budget policy.

I am not sure—I suppose in Gramm-Rudman days there were years that we did not have hard targets like we have now, but certain deficit reduction targets instead, and we had all kind of games played with that. I think baseline was the worst of them. We used to have all kinds of rosy scenarios. For a period of time, we had asset sales we could count, which we cannot count anymore. I think a lot of this is a response to the gamesmanship that existed under the Gramm-Rudman rules which we do not have anymore.

Mr. OBEY. I would like to observe that when I mark up my appropriation bill, I don't pay any attention to my baseline except what we provided last year. I think the existing budget baseline is a useful tool of analysis because it enables you to determine how much the dollars you are appropriating buys in comparison to last year. But when you put appropriation bills together, most chairs that I know simply say, well, we are assigned this dollar amount,

they got this amount last year, we can afford this amount this year, and so we don't hear any real discussion of baselines.

I think that is a controversy which is left over from a different era. And it certainly doesn't have any application to the appropriations process because while I think budget baselining is a very useful tool to determine what is happening to the real purchasing power of any program, that doesn't mean we appropriate at the baseline. We are appropriating every year on the basis of a hard freeze.

Mr. SABO. To put it in context, I suppose last year when we passed the large deficit reduction bill, and we said it was \$500 billion, part of that reflected cuts from baseline. Which I think that is an appropriate way, for broad guideline and outline, of saying what we did to be accurate.

The fact that we in that bill kept discretionary spending at or below what were then our 1993 estimates over a 5-year period of time, some would say was no cut. Well, the reality is over a period of 5 years, those are real cuts, policy choices that have to be made by the Congress. And so I think it is an apt description of what happened.

But when it comes to the specifics of appropriating, you look at last year's numbers and the President's, and those committees make their recommendations. When you come to entitlement programs, those inflation adjustments, in most cases, are built into the basic fabric of law; and if you make changes in that basic fabric of law, you have made policy choices, and reduced expenditures. To pretend that that law didn't exist, I think would not make much sense, unless you change the base law.

I suppose the other impact is that if you were going to consider base laws as it applies to entitlements, with those adjustments occurring regularly, and never look at the impact of discretionary spending on inflation that skews things more, again away from discretionary to entitlement programs.

Mr. CONYERS. My last comment or question is with reference to lockbox, because in conference, it really becomes an enemy against the House. In conference, you could be locked in in a way that only the lowest figure in the conference would prevail, so that you could end up reducing your own priorities because of lockbox.

Is that an accurate view of the kind of conundrum you could get into?

Mr. OBEY. Mr. Chairman, let me explain how the process actually works.

The House has the right under the Constitution to originate tax bills. We also feel that the House has the right to priority judgment on spending bills. So we determine what the 602 limitations are going to be for each of the subcommittees. We consult with the Senate, but we don't always reach an identical agreement, because the Senate has a different dynamic than we do. So we reach our 13 subcommittee 602 ceilings.

We then move the bills to the floor. The House works its will on each of those bills.

We then go to conference. The Senate has done the same thing on their bills.

We then try to come out of conference, first on the bills for which we have the same allocation in both Houses, so that we get rid of the easier ones first. Then we wind up dealing with the bills that have different allocations, and we have to adjust between the two of them to take into account the actions of the House, the actions of the Senate. We can't exceed the overall number, but we have—in fact, that is where the actions of the two Houses are reflected in the conference process; and if we did not have the ability to do that, we would have a winner-take-all or an all-or-nothing position in conference.

I don't know of any human endeavor where that is a good idea. It just seems to me that you always have to have the ability to compromise between Houses, between the parties; and if you lock yourself into a specific dollar number, you might as well not try to go to conference, because in one House or the other that conference is going to fail.

Mr. CONYERS. Thank you both.

Mr. McCandless.

Mr. MCCANDLESS. Thank you, Mr. Chairman. I would like to talk in terms of the system, and I am not a person that wants to get involved in personality. I think we are here to talk about the system rather than a party on this side or a party on that side; or what you said, he said, or I said.

So, having set that stage, I would like to go back in history a little bit and talk about my experiences with the Federal budget, having come from another level of government and having been very much involved in the process, which is the same, except you reduce the numbers by quite a few dollars and zero signs.

Since my coming to Congress, we have enacted a number of changes to the budget process steps. The 1986 tax law. That was a big boondoggle. It helped to create the recession. And when 1990—or in 1987, I think it was, we came up with Gramm-Rudman. That was passed. The word "sequester" became a part of our vocabulary.

Then, in 1990, we came up with the budget agreement. And in each of these cases, the person paying our bills out here with his or her taxes was saying, OK, we will go along with you on this program, this policy, this procedure, because you are telling us it is going to ultimately solve the problem.

And then we come up in 1992 with the budget and tax increase—1993, I am sorry. And in 1992, if I have my year right, we waived the budget rules on the floor of the House 52 times. So I am saying to myself, wherein do we have the problem here with respect to whatever system we decide to adopt? We don't seem to be satisfied with it as a legislative body and we try to find ways around it if it doesn't suit us; or we simply waive the budget rules and go ahead and pass the rule and go on with the program at hand.

We have—in the last 40 years for every \$1 of new revenue that we have received, we have spent \$1.59 in expenditures. In the program that we passed last year, the tax bill and budget—depending upon how this plays out, for every \$1 that we promise to cut in spending, we will add \$4 to \$8 in additional expenditures.

Now, what I have attempted to do here is to put together in a collage a number of things that leave the people out there who pay

our bills at a loss. They keep asking well, aren't you fellows going to ever come up with anything in the way of a system that you can agree on and keep in place so that you can address this deficit?

For example, here is a question that comes up more times than I would like to say, if I can find the right notes here. We voted to cut spending. We tell the voters, we have cut spending, but we routinely redirect this money to other programs instead of applying it to the deficit. Then the voters look at this and they say, when Congress votes to cut funds from a program, that is fine, but all that happens is that they vote money and spend it for another Federal program.

Now, I have given you a little bit to chew on; however you wish to respond, if you do, have at it.

Mr. OBEY. Well, I guess I would just like to take your last point and say, it ain't so.

Mr. MCCANDLESS. Which last point, Mr. Obey? You mean, to keep raising our expenditures?

Mr. OBEY. No. The last point you made about Congress keeps cutting spending and then shifts it to other programs.

As I said in the last part of my testimony, the fact is, the numbers just don't bear that out. I will repeat the numbers. On appropriation bills last year, 27 times the House voted to cut appropriation bills, 27 times. We accepted—the Senate accepted those reductions in 21 of the 27 occasions.

Mr. MCCANDLESS. I heard that.

Mr. OBEY. And that meant that we had a reduction total of \$615 million capped all right. That was at the budget.

Mr. OBEY. Which was offset by over—by about \$500 million in termination costs. So you did not have a shifting of money—

Mr. MCCANDLESS. Did you take into consideration the supplemental appropriations and all of the individual appropriations on various waivers of the rules of the House?

Mr. OBEY. Yes, sir. Waivers don't have anything to do with it. I am talking about—you said that when the House voted to cut spending, it was then shifted to other programs. I am saying that is not a fact. That is a myth; that is not a fact.

Waivers have nothing whatsoever to do with whether the House has voted to pass an amendment cutting spending or not. Most waivers that are granted are simple waivers because of lack of authorization. That is a totally different question; it has nothing whatsoever to do with the assertion that somehow you need lockbox, because we cut programs and then shifted to other programs.

The fact is, there were only six times when the conference didn't accept the cuts that were successful on the House floor, and the major reason that we didn't reach the same dollar savings is because you had termination costs.

Mr. MCCANDLESS. Well, you have gone over that a couple of times now. When we talk about waivers, we talk about, well, we are doing this because we don't have an authorization. Shouldn't there be an authorization? Shouldn't the authorization committee have an opportunity to review the subject in question before the money is appropriated?

Mr. OBEY. Well, of course they should. What do you do if an administration stiffs an authorization committee?

Mr. MCCANDLESS. I am sorry?

Mr. OBEY. I say, what do you do if an administration stiffs an authorization committee?

Example: I chair Foreign Operations. We have to provide the foreign assistance budget. We went over 5 years in a row, not having an authorization pass. Now, Members are free—if they decide that they don't want to provide any funding, they are free to vote against the appropriations process.

We have never had a dispute with the authorizing committee that was not resolved in the Foreign Operations bill, because I won't bring a bill to the floor unless it is. But we—when we bring a bill to the floor that is there without authorization in the Foreign Operations area, it is because the authorization process has broken down and we are, therefore, left with a choice. We can provide no funding whatsoever for those programs, or we can reach an accommodation on an appropriation process.

And I would point out, since the bill that we passed was passed by a margin of almost 4 to 1, it just seems to me an indication that on a bipartisan basis, we reached a reasonable accommodation, given the fact that the authorization process had broken down.

Nothing in any of the proposals before us will do one blessed thing to fix the authorization process. The authorization process does not produce a bill if you don't have the political will on the part of an administration and both committees to reach the same conclusion.

Mr. SABO. Let me give you another example.

Tomorrow we will vote on the defense appropriation bill. And the defense authorization bill has passed the House. It has not passed the Senate; they authorize on an annual basis. So clearly, that bill will require a waiver from the Budget Act to be able to proceed. Otherwise, one would—you know, last year, I don't think the authorizing bill was passed until virtually at the same time that we had the conference report on the defense appropriation bills.

Those budget waivers are not waiving our discretionary spending caps. They rarely have fiscal implications. Most of the bills that may have a little bit of fiscal implications, violation of some rule—if it is a minor number, you are more likely to find that suspension, which involves no waivers. So the budget waivers are not spending questions; they are procedural questions.

When you go back to the specific years you mentioned, you did not go to 1981, where I think we made some judgments that clearly created the deficit problems of the 1980's, started the problem. You spoke to the 1986–1987 tax simplification bill. That was not a proposal—you know, people can vote yes or no on it. It was not a bill that was decided to either lessen or increase the deficit. It was negotiated between the Congress and then President Reagan in an attempt to simplify the Tax Code.

The 1990 budget agreement with President Bush, I think, in setting new spending caps, discretionary spending, established a very effective procedure to deal with discretionary spending; and many of its provisions clearly have been helpful in bringing the current

deficit down. But it also came in a period of recession. Any time you have a declining economy, the deficit is going to go up.

The best strategy—the best deficit reduction strategy we have going is a healthy, functioning economy. The 1993 act significantly reduced spending. It extended the discretionary spending caps through 1998—and let me remind you that through the 1980's, discretionary outlays were growing at \$20 billion to \$25 billion a year—made real cuts in entitlement programs which are having their impact; increased revenues, and revenues are going up; and actually, the deficit reduction is substantially more than what we projected a year ago, because the economy is functioning and the impact of the changes in laws that we made.

But the waivers today are not there from those discretionary caps. The pay-as-you-go requirement which was part of the 1990 act, which was a very important 5-year requirement, those are in place and, frankly, they are working.

Mr. CONYERS. Let me ask Mr. Spratt to get two questions in before he leaves, and we will come back to Mr. McCandless.

The gentleman from South Carolina.

Mr. SPRATT. Two questions.

First of all, as I understand your explanation of baselining, and also the explanation of baselining that is being requested, we are basically doing it right now. As I understand the baselining requests, those who are proposing it are not seeking to have a budget authorized or appropriated every year from last year's baseline; they are only asking for a presentation of the budget so that you can measure the increase from one fiscal year over and above the prior fiscal year against that constant baseline.

As I understand it, in one form or another, both of you are still presenting it.

Do you have any problem with the presentation of the budget in this form so long as it is just presentational?

Mr. SABO. No. I think you should reflect last year and this year. I have no problem with that.

I do have a problem when people say that when you project what is happening with general budget policy, you should ignore baseline. I think that is a legitimate measure, just as the change from last year to this year is also a legitimate measurement of what is happening. They are both legitimate.

Mr. SPRATT. Mr. Obey.

Mr. OBEY. People in the appropriations process, people right now get the presentation that shows what you spent last year versus what you spent this year.

Mr. SPRATT. We do the same in the authorization process.

Mr. OBEY. Yes.

Mr. SPRATT. So as long as there is a present—as long as it is presentational, there is a presentation of the budget so that you can compare last year's spending with this year's spending, you have no problem with it.

Mr. OBEY. I don't have any—I mean, that is what we do now. I mean, I would be happy if we had the resources so that we could get—so that we could appropriate at the baseline level, but we don't.

Mr. SABO. I have heard people say that if we visit about what has happened with defense since 1985, if we say there have been some significant cuts in defense spending since 1985, that we are wrong. We may disagree as to where we should go in the future, but the reality is—you know, the dollar amount is relatively level, but the reality of inflation over a 9-year period is that real spending on defense has dropped, I don't know, 35 percent, something like that.

That is also an accurate description, just as looking at actual dollars is an accurate description.

Mr. OBEY. I mean, if we really want to fool ourselves, then confine ourselves only to nominal dollar descriptions of programs, the next time you get into a war and you get the hell beat out of you, just say, well, gee whiz, we—you know, we provided the same amount of money we were providing 10 years ago. Yeah, but over 10 year's time that is buying about 30 to 40 percent less in real punching power than it would have a decade earlier.

So if you want to walk down a blind alley and leave this country on a straight route to national insecurity, budget only on the basis of nominal dollars with no attention whatsoever to the baseline concept.

Mr. SPRATT. One other question, and it relates to the lockbox.

Mr. OBEY. I am fully aware of the unintended consequences of laws that you both warned us against. I think maybe you state the case against lockbox a little too harshly, though, because as I understand at least one version of it, it wouldn't be binding upon you, upon the Appropriations Committee, until the conference report itself had actually been adopted and the proposal to cut and the spending cap had been enacted into law. Until that time, it would seem to me the proposal for both the specific item and the spending cap reduction would still be in play in conference and not binding upon you until it was finally resolved with the Senate and enacted.

Mr. OBEY. I would have two observations. First of all, it is fairly difficult to comment on any of these propositions, because while, for instance, they propose a process—well, I won't get into that. But the fact is that these targets have moved so fast and the proposals have changed so often that it is very difficult to keep up with them.

There may be a different permutation, which is a bit different. Fine.

The problem is, however, that even if you did that, you would not be able to respond to any—I mean, life is not—no matter what politicians promise, life changes, conditions change. We would not—we would not have been able to fund assistance to the Soviet Union last year if we had not been able to take the remaining budget authority and outlay authority, which we had chosen not to spend for other purposes, at that time and use it for a high-priority national emergency.

I don't—we have the peacekeeping issue this year. I don't—I do not buy the idea that once we had made a macroeconomic decision in terms of what that overall spending level ought to be, that one side of the argument ought to be able to adjust that and the other side shouldn't. I don't think we ought to be able at the end of conference to say, well, conference decided to spend an extra billion dollars more, so we ought to raise it. I don't want to do that.

By the same token, I don't want to have to artificially lower it either, when you can have hurricanes, national disasters, wars, international problems that require you to try to—

Mr. SPRATT. I understand fully what you are talking about. What I am trying to clarify is, under these bills that have been proposed, at what point are your hands tied? Schumer's bill says, "It shall not be in order in the House or the Senate to consider a conference report that modifies any deficit reduction lockbox provision that is beyond the scope of that provision and so committed to the conference committee."

Mr. OBEY. That means, in essence, that you are locked into the House number, as you go to conference. You—in other words, you can go to conference only if you agree not to compromise with the Senate.

I think that is ludicrous.

Mr. SPRATT. You read that language to mean that your hands are tied as soon as the House has adopted it?

Mr. OBEY. Yes, I do.

Mr. SPRATT. So that is the provision that you are specifically complaining about?

Mr. OBEY. Yes.

Mr. SPRATT. I think the point is well taken. Thank you both for your testimony.

Mr. CONYERS. Chairmen, Mr. Zeliff is very anxious to discuss these matters with you. Could we stop now for the vote and come back to accommodate him, please?

Mr. OBEY. Sure.

Mr. CONYERS. All right. Thank you very much.

We have a vote on the previous question and then a 5-minute vote on the rule for DC Appropriations. The committee will stand in recess.

[Recess taken.]

Mr. SYNAR [presiding]. The subcommittee will come back to order. If Mr. Sabo will come down, we will continue the questioning here.

The Chair recognizes Mr. McCandless for questions at this time.

Mr. MCCANDLESS. Thank you, Mr. Chairman.

Is Mr. Obey coming back?

Mr. SABO. I think so.

Mr. MCCANDLESS. We have talked here through a number of issues. Many of your answers are interesting. They are sincere, I am sure.

My concern is that the two Members of this panel are key elements in the budgetary process and how the money is spent in Congress, whether it happens to be you as a personality or somebody else, the chairman of the Budget Committee or the chairman of Appropriations.

If I understood Mr. Obey's comment correctly, if we don't authorize it, we need to appropriate it, so we waive the budget rules on the floor of the House and go ahead and appropriate without authorization. Was that your understanding?

Mr. SABO. It varies. We do in some cases; in some cases, we don't. There are all kinds of ongoing programs that have not been reauthorized for a variety of reasons. Sometimes that stops appro-

priations, sometimes it doesn't. But whatever we do, we have to stay within the spending caps that are set and that we have been operating under since 1990.

But, you know, the waivers we talked about, those are basically nonnumber waivers; they are—procedural waivers.

Mr. MCCANDLESS. Well, then we shouldn't have to have procedures then.

Mr. SABO. Well, the nature of a legislative process is—

Mr. MCCANDLESS. I am familiar with the legislative process.

Mr. SABO. Some flexibility is what makes it work. I have observed this process for many, many years. You know, the President's program is whatever they say it is.

The legislature has many virtues. Part one of its negatives is it can never be as simple and as precise as the executive. However, but it has time and it has some flexibility in working out solutions to problems. That is apparently what the legislative process is all about.

As it relates to budget, the budget process puts some restriction on total dollars we can spend in discretionary spending but we have some flexibility in how we get there.

Mr. MCCANDLESS. I don't know—

Mr. SABO. If you are concerned over the dollars, watch suspension bills more than the bills that have waivers.

Mr. MCCANDLESS. Well, let me try to conclude by reading some sentences out of the bipartisan commission on entitlement and tax reforms report dated June 21, 1994. And I have some real concerns; I mean, I am sincere.

And you say, well, if it isn't broken, don't fix it, it doesn't need fixing or however that goes. If it isn't broke, don't play with it. In my opinion—you may disagree—we have a real problem, and we are going to have to make some major changes, and that is our spending process, whatever that requires.

This is the summary of the June 13, commission meeting. I am just going to read a couple of pieces out of it, a draft commission finding, for discussion. Under finding 3, the second section of that simply says this: "Entitlement spending and interest on national debt consume more than 60 percent of the Federal outlays today and double the percentage of just 25 years ago."

This is the key element here. Entitlement spending and interest are projected to exceed 70 percent of outlays by the year 2003.

And finding 4, and this is just a couple of the sections of finding 4: "By the year 2030, Medicare, Medicaid, Social Security and Federal employees retirement programs will consume all Federal revenues." Total Federal outlays would exceed by 37 percent the economy, compared with outlays of 22 percent and revenues of 19 percent today.

And then that particular section concludes "If action is not taken soon, America will be forced to choose between doubling every Federal tax and cutting more than half of every Federal program and entitlement to balance the total Federal outlays and revenues."

This is not some think tank downtown; this is our bipartisan commission on entitlement and tax reform. Those are serious statements with respect to the future.

I serve on the Banking Committee, and I have had interest in the financial aspects of our development banks and so on and so forth. And this is not meant to be a scare tactic, but if we continue in the direction that we are, with the type of budgetary process that is currently in place, I am sorry to say by the year 2000 we will probably have devalued our currency, which presents a tremendous problem with respect to everything we are trying to hold together.

If you have ever been in a country where devaluation has taken place, it tends to be catastrophic, particularly on the old people.

These are my concerns. I am sitting here, I am part of this committee, I am talking to you folks because it is broken and it needs to be fixed.

Mr. SABO. Mr. Chairman, if I might respond—I am on that commission—I think those are preliminary findings; but I don't quarrel with the basic thrust that we have some real, fundamental, long-term problems. All of these procedures we are talking about here basically relate to discretionary spending, not to the entitlements that is referring to.

Basically what you read to me is part of the reason I said earlier—when Chairman Conyers asked me about long-term problems we had to deal with in the process, one of the problems we had to sort out is how we deal with in this process problems that have a timeframe of more than 5 years. And you are simply reinforcing that, because when you deal with these programs that have long, long lags or whatever one wants to call it, one of the problems we have is that the fundamental change may or may not have an impact within the 5-year framework in which we operate on budget resolutions.

I would hope one of the areas that the commission might come up with some recommendations on is how we deal with some of the real long-term problems of Social Security. Those changes may or may not have impact within a 5-year window; and that is the area that we deal with within the reconciliation process of a budget resolution and how we get at those long-term problems. Or we can, in effect, use the process to force change on long-term problems which may not change anything in the 5-year framework. We need to think this through.

I, frankly, am not sure how we do it. So I would be interested in your thoughts on how we deal with that kind of process question.

I think you would be much better served looking at those kinds of issues than some of these—trying to rework some of the old questions on discretionary spending, which frankly are under significant control through the budget caps that we set in 1990 and extended in 1993. And many of the other procedures don't deal with the big issues the commission is trying to deal with.

And one of our problems—you know, we spend hours over some amendment on the floor that involves \$2 or \$3 million, like that is going to solve the problem. And there is some importance and relevance to those, but the larger, long-term questions that we have to deal with on how we handle retirement policy in this country is something that I don't find any of these proposals before you really dealing with: And those are tough, long-term questions.

There are also very substantive changes going on in our society. There is a decrease in basic retirement plans being offered to people. My own judgment is that the basic importance of Social Security as sort of a basic retirement benefit is probably growing in importance with the changing nature of our economy. At the same time, we have to deal with the real long-term funding problems that exist there.

I hope the commission can come up with recommendations. If we do, they may not easily fit into what we do or don't do in the budget process currently. So your committee would be much better off spending time trying to sort through that and hearing from some folks on how we deal with that kind of long-term problem in the process, rather than some of these things that just simply rehash the campaign rhetoric of recent years.

Mr. MCCANDLESS. I understand where you are coming from, and I understand your response. The problem here is that the person in the street does not understand all of this. They feel that it is all attached to the budget; that if you were to address the budget correctly over a period of time, these problems would be addressed.

Now—

Mr. SABO. Well, you know, I think some real debate and discussion of real long-term problems would be helpful for the public; and hopefully, we can find the framework for doing that. Clearly, we have an aging population with retirement benefits being a very important part of it. How we fairly make modifications that, both for existing retirees, for future retirees 40 years from now is a very important question.

But those are the kinds of issues that really go to the heart of our long-term budget problems in this country. We have made significant change for the short term and there are still short-term problems we have to work on.

But these long-term ones are some very important basic governmental decisions that we are going to have to make. And the structure doesn't lend itself to easily dealing with that. And I don't find any of these, "process changes" really dealing with that kind of problem.

Mr. MCCANDLESS. Let me just briefly touch on one more issue. We have talked on occasion in this discussion about Social Security. Other than the Federal Government's direct responsibility as an employer, the Social Security trust fund is a self-supporting agency, and it is self-supporting because of the withholding from the individual employee and the payments by the employer. It was finally taken off budget, I think, if I have my facts right, but we keep referring to it, well, if we cut Social Security, that will help. And the only thing that would help is that we would have more money in the Social Security fund to borrow from under the 1935 act to apply to the deficit.

Am I out of sync here?

Mr. SABO. No, not in the short term. But going back to what you just quoted me earlier about the long-term problem, part of the problem there is that—I forget the exact year, 2020 or maybe 2015—that balance switches in the opposite direction. On a yearly basis, expenditures will be higher than the yearly receipts, and we

will start the process of using up the surplus that has been accumulated these years in the trust fund.

The reality is that the trust fund today has, both from employer/employee contributions and interest earnings, more revenue than outlays. But in the next century, that changes; and that is part of that larger problem that you described to me earlier.

Mr. MCCANDLESS. In the 1983 adjustment we had—we finished up that program with two amendments. The one amendment was from Congressman Pickle and the other one was from our former Congressman who is famous for his senior citizens from Florida, Congressman Pepper.

The Pickle amendment said, let's increase the time, the date, or the age at which recipients may take advantage of Social Security. The Pepper amendment said, no, at 2017, let's increase the payroll tax. And the 1983 bill was left there; and the increase in the age by month-on-month-on-month basis after whatever the year was, 2017, was the amendment adopted by Congress as a means of adjusting and taking care of what it is we have just been the short-fall. We would move from 65—from the 62 date to 65 over a period of time, and the 65 date to 67 over a period of time, and that would take care of what we had in the obligation.

This is a little bit off of what we are here to talk about, but when we talk about cutting Social Security, it baffles people, including me, because it has nothing to do with the budget; it is self-supporting. The only thing there is we are not able to borrow as much.

Mr. SABO. The long-term viability of the Social Security trust fund—I am one of those folks, I call myself one of the new notch people because I am eligible for full benefits at over age 65. In my case, I think it is 65 and 2 months or something. I am part of the phase in of raising the retirement age.

But that was partially a problem to deal with current cash-flows, but also partially to deal with long-term obligations of that fund. And the current projections are that at some point we again have to deal with the long-term viability of the fund, because outlays will exceed the revenues and the surplus that has been accumulated over these number of years.

What one should do with that surplus, I suppose is a debatable question. Currently, it is put in government securities. You know, you might want to look at the option of not doing that and having it go out in the private stock market or someplace. I am not sure folks would want that.

Mr. MCCANDLESS. I am not suggesting anything like that.

Mr. SABO. No, but those funds currently do get interest. The interest is credited to the surplus of that account.

Mr. MCCANDLESS. There is a separate account under the Social Security system by which the Treasury handles these—

Mr. SABO. That is right. An option would be to invest those funds separately in the private stock market or bond market.

Mr. MCCANDLESS. One final quick question, Mr. Chairman.

You have listened to our questions, comments and so forth. We are here talking about a system currently in place and a number of proposals for modifying it in some form, shape or another. Does either one of you have specific suggestions on what you would see would be beneficial in terms of modifying the current system?

Mr. SABO. As I suggested earlier, I think the entitlement review process that passed the House last year is positive. I would like to see that permanent.

I again think the Byrd rule should be modified. I would place a great deal of importance on doing that. I don't know how you easily change that, but I just think it is fundamentally wrong that that rule should apply to conference committees as well as the initial Senate action.

Then, thinking through how we deal in the budget process with those long-term entitlement problems that you were talking about, rather than always sort of just simply those things that fall within a 5-year window. I think those are very important issues that should be dealt with.

Mr. McCANDLESS. Mr. Obey.

Mr. OBEY. I would simply say that I agree with Mr. Sabo with respect to the Byrd rule. But what I would urge you to do above all else is simply talk to Lou Fisher at CRS. I think that he has laid out the best evaluation of the budget process which we have right now.

I don't believe our problems are a lion process. I think if you—I mean, if you want to control the budget—I find it ironic, for instance, that on one of the amendments that was voted on last night to the Labor-HHS bill, that that amendment took the Labor-HEW bill over the outlay limit under the 602 subdivision for that subcommittee. Yet an awful lot of people who sponsored A to Z voted for it. I find that disconnect interesting.

What I think Mr. Fisher suggests is this: I really believe that the main problem with the existing budget process is that Congress knows how to authorize, it knows how to appropriate, but beyond that, I think you get into all kinds of smoke and mirrors. I really believe we were better off when the President submitted his budget with no magic procedural crutches for us to lean on, and then we were simply held accountable through the political process for the end result each year.

I think that before we had all of the niceties of the Budget Act which might be more elegant, but I think less realistic—we had a better track record on controlling the deficit.

I think the basic thing you have to do if you are going to reduce the deficit is to take substantive actions to clean up some of the tax loopholes which leak away key money. I think you also need to take a hard look at what is happening on the entitlement side of the ledger, and I think that you should consider the possibility of doing what Mr. Fisher recommends, which is to keep the Budget Committee certainly, but to eliminate the budget resolution. Because I think the budget resolution gives everybody an opportunity not to be real, including Presidents.

I think what happens now is that because we appear to have a budget process which is separate from the President's budget process, the President's budget is judged only on the basis of whether it hits a specific target for the budget resolution. But in fact, they can make numerous recommendations in their budget which are wildly unrealistic.

The press really doesn't report that very much; it simply reports, does it hit the target or not. So if all the President has to do is to

hit the target in the budget he submits, even if it is based on wildly unrealistic budgetary assumptions, and then Congress is sort of left to fend for itself, I think we would be better off without the budget resolution. But I don't have the faintest belief that the Congress is going to do that.

Short of doing that, I would simply—I would simply focus on the necessity for people to vote the way they talk; and if you can figure out how to get them to do that, you are a whole lot smarter than I am.

Mr. MCCANDLESS. Thank you both.

Thank you, Mr. Chairman.

Mr. CONYERS. Thank you very much. No discussion of budget reform would be complete without allowing Bill Zeliff to ask a few questions.

Mr. ZELIFF. Thank you, Mr. Chairman.

Thank you both, Chairman Obey and Chairman Sabo, for being here and going through this, I hope, very constructive discussion. I don't think there is any issue that is more important.

I would be happy to have you, Chairman Obey, join me maybe in cosponsoring an A-to-Z process next year or even earlier to get rid of some of those tax breaks; and I think I heard you say, like the Tyson chicken farm. I think that would be very productive, and I would love to join in that effort with you.

Mr. OBEY. Why do we need A to Z to do that?

Mr. ZELIFF. Well, then let's start the process. You both individually said that you are kind of happy with the process that we have, that if we sit forward and just be patient and hang tight, that the Federal debt that is going up like this is going to correct itself at some point. The interest payments are going to correct themselves and the entitlements over here that are admittedly out of control will eventually, you know, with the commission and other things, will take care of themselves.

I guess what I would just like to say is that all I did with A to Z—and I don't want to do this on a personal basis, and I am not going to respond to my vote on the Porter amendment and other things—

Mr. OBEY. I wasn't talking about the Porter amendment.

Mr. ZELIFF. OK. What I would like to talk about is A to Z is a process that resulted from Senator Kerrey in the Senate last August asking for a special session to cut spending to make the economic plan numbers work even far better than you have taken credit for them working now.

I think the tax increases—and I, frankly, voted against that plan—were wrong for our country, and I think time will bear that out. Adding \$1 trillion to our debt over the next 5 years in my judgment is not the way to go. But what I have tried to do is pick up on Senator Kerrey's request for a special session.

And Tim Penny, I believe, is in the room here, or was. He also asked for that special session. And I believe that both of these gentlemen were promised some kind of a special time when we would review spending and waste in government and do a better job on the spending side.

We do a great—better job on cutting the spending. We do a great job on spending money; we do a lousy job in doing it in an accountable process.

What I have tried to do here is work within the system, your system, the system that we all respect and we are trying to make it better, but I tried to put in a bill, along with Rob Andrews, and we have been waiting about a year. It hasn't—nothing has happened from either the Government Operations Committee or the Appropriations Committee. We then went through the discharge petition where we have 203 people who have signed that.

I have no idea where we are going at this point. But what I would like to do is just kind of look at the process itself. And as we have worked a year on this thing, and what we are saying is cutting spending 56 hours, everything on the table, including entitlements—which I think both of you gentlemen would agree are clearly out of control—that we need to have that discussion.

Why do you think that this is such a bad idea? Why do you think we 203 or 230 that cosponsored the bill, certainly the will of the majority in this House, are so badly wrong in our ideas in trying to say, along with many, many people in America—I think the beauty of A to Z is people can understand it.

Cab drivers and people who work for a living, work hard, can understand. They have to set priorities in their spending. Why do you look at this as a threat, and why wouldn't you consider this as a positive idea to explore, at least?

Mr. OBEY. I don't look at this as a threat; I look at it as a way to turn the Congress into a circus.

With all due respect, I do not believe you have worked the existing process. The only communication my committee ever had from you was a request that we add 418 percent to the Emergency Food Assistance program. We haven't had requests from you to cut budgets. You haven't tried to cut budgets on the floor. You can go to the Rules Committee and try to cut budgets.

Mr. ZELIFF. Well, to save a lot of time and energy, rather than individually getting in a contest between you and I, I think we would be better served if we can try to stay on track with the process of A to Z if it would work relative to reviewing entitlements, for example.

And Chairman Sabo, in your report, the pages aren't numbered, but on the first page on entitlement review, you marked, I should also point out that this year total entitlement spending came in below the target, so there was no special message sent by the President on entitlements and no action taken by the House. And yet we look at this, and by admission, entitlements are out of control.

Shouldn't we be dealing with that, and what is wrong with dealing with it within the process of A to Z?

Mr. SABO. First, the entitlement review process worked and we came in under the targets, which is good, not bad.

But the most fundamental issue we have before us in reforming entitlements is the question of health care reform. It goes to the core of the problem. I have my own judgments on how we should do it, and my view may or may not be in the majority.

But the most fundamental issue that we face in dealing with long-term entitlement policy in this country is the question of health care reform. The Congress is dealing with it. We have committees working night and day on that issue, both in the House and Senate. We will be having votes, I assume, in July or August on that issue where we have to come to some judgment. And that—you know is the largest, most complex issue this Congress has ever dealt with.

So to say that the Congress is not dealing with entitlements in 1994 when, in a massive way, we are struggling with the question of how we reform health care that is totally erroneous. It is true that when you look at what is growing most rapidly in the entitlement area, it is health care.

We have some very fundamental questions. Do we do some things which simply have short-term savings? Do we do more comprehensive reform in the system? To what degree do we deal with equity within that system? Those are large issues that are being struggled with by this session of Congress.

There were folks who wanted to take quick action that would make it more difficult for us to deal with the long-term problems. Those efforts have not succeeded. I hope we succeed in our ability to deal with it on a long-term basis. I am not sure we can. We will find out in the next several months. But the Congress, to its core, is struggling with that most difficult of all issues this year.

Mr. ZELIFF. I, for example, if I was given the opportunity under an A-to-Z process, would propose that we have means testing for something like Medicare.

Mr. SABO. Well, there are proposals—

Mr. ZELIFF. And anybody that is making \$75,000 or more would be treated differently on a premium. I think that this is the kind of discussion that we now need to start talking about.

Mr. SABO. But that is part of the President's proposal for paying for fundamental health care reform.

Mr. ZELIFF. So the reason that you guys are not interested in dealing with A to Z is you feel it will conflict with the President's health care proposal?

Mr. SABO. I don't know what A to Z is. It is very different than our normal reconciliation process where we make recommendations of dollar totals for entitlement savings, which is then worked through the committees, and they come up with their recommendations.

There is potential for the public to be heard; there is potential for committees who have the most expertise in that subject matter to work their way. And when it relates to discretionary spending, we have that portion of the budget before us every year, open to amendments as we have been going through on all of these appropriation bills in recent days, where you and other Members have the opportunity to make amendments. The reconciliation bill process does that in entitlements.

We can also go beyond that in working on entitlements like we are this year on health care. That is by far the largest and most comprehensive reform and change in entitlement policy that this Congress has considered. I hope we are successful. I don't know that any of us can guarantee it at this point.

Mr. OBEY. I would invite the gentleman to look at page 29 which I—of the CBO presentation which I attached to my statement. If you see there, Medicare goes from \$160 billion in 1994 to \$238 billion, a \$80 billion increase; Medicaid from \$86 to \$135, a \$50 billion increase—by far—by far the largest percentage increases in any accounts in the budget. But, in contrast, discretionary for 1994 to 1998 goes from \$543 to \$547.

It is apparent that the problems are on the entitlement side, and within the entitlement side focused on health care.

I respect the gentleman's desire, and I respect his honesty in being willing to tackle a problem that he thinks is important. If you think that it is right to means test Medicare, I don't quarrel with your right to express that view through a vote. But what I object to on A to Z is that it ignores the fact that the existing processes can achieve those same opportunities. And I don't understand why the discretionary part of the budget, which has always met the targets, is included in anyone's A-to-Z process, which to me simply results in having one side of a deal on discretionary spending have a right to get 14 kicks at the cat during the year while the other side of the argument gets one.

Mr. SABO. Mr. Chairman, if I might, let me speak to the specific varying premium for Part B recipients. That is not means testing. Means testing is something else.

Conceptually I agree with you. My hope is that that is one of the funding requirements of health care reform. I fundamentally agree with that. On the other hand, the issue is not so simple. The fact is that there is incredible variation in Medicare reimbursement around this country.

We had proposals earlier this year that for the bulk of the country would have hit most seniors, paying more than their actual cost because the reimbursement of Medicare to the various States varies immensely. We have a problem in the State of Minnesota where I think we have a high quality of care and a 15 to 20 percent below the national average.

Every time that we make a better improvement than the rest the country, HCFA drops our Medicare reimbursement to the States. Our premiums are the same as in the high cost areas but the reimbursement keeps going down. And then we have a proposal to vary the premium and having the more affluent seniors paying premiums, that would be substantially more than 100 percent of cost to the people in our State. That is not particularly fair either. And those were the proposals. Those are the types of things I think the committee needs to try and work out if they are going to do it.

As a matter of fact, I took a look at the proposals we had before the Congress earlier this year because I was interested in the subject. I found that the residents of 96 percent of the counties in this country had Medicare reimbursements below the national average.

We got to the national average because a few parts of this country are very, very expensive. And we would have had seniors in most parts of the country paying more than 100 percent of the cost. I don't think that is fair.

Mr. ZELIFF. I see your point.

Both of you I think have mentioned the three-ring circus and let me address that quick. I don't want to get off track, but you know

I can remember a three-ring circus at 4:30 a.m., 1991 where we, on voice vote, passed \$55 billion for RTC and FTC. I think that is something that we all ought to be ashamed of. There was not a piece of paper or a bill. There was nothing. We had nothing in our hands to know what we were voting on and yet on a voice vote at 4:30 a.m., \$55 million. That is a big chunk of change.

All I try to do in A to Z is in a businesslike judgment, and I apologize if I tell you that I have been in the business world for 34 years and I bring that kind of point of view to this place—in a businesslike judgment, what is wrong having a session where we talk about trying to find together where everybody has a chance to participate, not just a small group of people, in some of the ideas and maybe add to the wisdom that you all have so that maybe we can come up with solutions?

We have a discipline here that if we set a little target and we reach the target and we are below entitlements for the last 2 years, therefore we don't have to worry, we can close the door.

Let me just finish my comment. I tried to be pretty patient.

And on the other hand, if we find some savings out there just because we are under the budget cap, why can't we have a process that reduces the caps because, guess what, for whatever reason, maybe less money on savings and loan, less money on interest, and other things, there is good prudent judgment. I can't picture a business, that if they were in trouble, and we are in trouble, would go through a process and say, we hit our goals, we don't have to cut our spending anymore but we are still in debt. It doesn't make any sense.

Mr. OBEY. The gentleman has said that he saw instances of bad process. I agree with that. My question is, why do you want to compound it? A to Z would allow for a chaotic discussion on the floor. Show me at what point—the purpose of committee hearings is so that somebody other than a Member of Congress gets a chance to get in its 2 cents' worth before you make decisions which affect a large number of people in this country. When you exclude the committee process from budget consideration—

Mr. ZELIFF. But we never did. After a year, this is the first chance we discussed A to Z in this hearing today. If you want to call it a full-blown hearing—and we waited a year and basically neither committee was going to do anything on this thing. This thing was going to end up in some third drawer and we worked hard on a discharge petition and we worked hard in grassroots and this is something that everybody wants to see us to do.

You ought to be part of the leadership on this and the Speaker ought to be part of the leadership, and it doesn't have to be a three-ring circus. And believe it or not, the people who are involved in it are responsible people just like you and we have the same commitment that you all have.

Mr. OBEY. With all due respect, I think your proposal is tremendously flawed. I don't see any purpose in extending the time that we are taking before you to repeat the reasons that we gave you.

But I want to repeat the facts as opposed to the myth. The facts are that the House passed 27 cutting amendments last year. We excepted 21 of them in conference—70 percent. That resulted in \$615 million in spending reductions, and the only reason that you

did not get \$615 million in savings is because we had \$500 million in termination costs associated with some of the programs that were cut. So with respect to the lockbox portion of this proposal, it fixes a problem that doesn't exist.

Mr. ZELIFF. OK. Let me just—and I won't belabor this, but last year restricted appropriations bills of the 103d Congress, there were 5, and 104 amendments that were rejected, 78 on the Republican side, 26 on the Democratic side.

Let me just ask you one question, chairman, on your idea. What you were requesting as an alternative to A to Z was that you would like to have 56 hours of debate and you wanted it centered in each Member's individual district; is that correct?

Mr. OBEY. Yes, I believe in starting by posing for holy pictures at home rather than in somebody else's backyard.

Mr. ZELIFF. And you feel that would address the entitlements and the way it needs to be addressed?

Mr. OBEY. I am the chairman of the Appropriations Committee. I am not commenting on the process with respect to entitlements. I am saying that if you are going to deal with appropriations—you mentioned 56 hours. I am willing to see 56 hours on the entire appropriations process. We have a hell of a lot more than that right now. And, frankly, as I said earlier, the gentleman has yet to offer a single amendment on the floor to cut a single appropriations bill.

Mr. ZELIFF. As chairman of the Appropriations Committee, you indicated earlier that you would cut a particular program in your district.

Mr. OBEY. I would eliminate it.

Mr. ZELIFF. Why don't you?

Mr. OBEY. Project Elf. I have supported elimination of that for years. I have not had Presidents agree with me or the committees in the Congress agree with me.

I don't believe that every time an individual loses an individual argument you ought to blow up the entire process because he has not had his way.

Mr. ZELIFF. I agree. The bottom line that we are dealing with here, I think both of you are a lot more satisfied than I think we are, is that we have a trend line that the interest on the debt is going in the same direction as the debt itself. And we can talk about the economic plan being so great for our country that was passed in August 1993, but it adds \$1 trillion to our debt over the next 5 years. I just think we need to do something dramatically different.

Mr. OBEY. I told you I thought the process was not the problem. I indicate that I understood the substantive problems. The biggest problem we have, very frankly, is that up until 1981, we never had a deficit larger than \$74 billion. Then we passed the Reagan budgets. They took the deficits to \$400 billion.

So we had a procedural fix with Gramm-Rudman II that promised to get us out of the hole in 4 years. I called it a public procedural process lie. It was. It only missed by \$290 billion. Then we have a second Gramm-Rudman process. Another magic process fix. Said we would get to zero deficit in 5 or 7 years. I have forgotten which. Didn't quite make it.

The only time we ever began to see sustained significant deficit reduction was from January of last year. The deficits for the fiscal year which ended of October of last year was \$70 billion lower than the deficit that was predicted by President Bush when he walked out of office, and we are now having 2 additional years of deficit reduction.

Because we had the political will to take on the issue. Which was not present during the era of gridlock.

Mr. ZELIFF. Isn't a lot of the savings in the present deficit—what did you say it was, \$70 billion?

Mr. OBEY. Seventy billion.

Mr. ZELIFF. Isn't it due to budgeting more money originally relative to the savings and loan?

Mr. OBEY. There was a portion related to that. Primarily the major reason was because of increased economic growth which meant that you had fewer people on food stamps, fewer people on welfare and unemployment compensation, you had more people working and paying taxes.

Mr. ZELIFF. Do you support Mr. Gephardt's proposal for 2 days of entitlement votes?

Mr. OBEY. It is irrelevant to me. You can have all the votes in the world, but if you don't have the determination to attack the real problem you are not going to get a hell of a lot done.

And in my view, what ought to come first is action on health care to deal with the major bleed in this budget, which is Medicare and Medicaid.

Mr. ZELIFF. I couldn't agree more on that.

Mr. SABO. I find it ironic. I have no problem with a couple of days voting on entitlement cuts. Two years ago at this time I recall the Congress was voting on a bill to increase expenditures on entitlements waiving the budget rules. I was one of the very small minority that voted against it. That was the proposal that increased the earnings for people over the age 65, which excluded before they started to have reduction of the benefits. It cost several billions of dollars. And fortunately, it did not become law, although it did pass the House.

Mr. ZELIFF. As much as we all think we are probably doing a great job and stuff, the emergency aid on the earthquake aid at \$8.6 billion—and I would like to introduce this, if I can, as a piece in the record—but here are 26 items of nonemergency aid that went into that process.

And I will read four of them: \$20 million for 500 new employees in an FBI fingerprint facility in West Virginia; \$10 million for a post office project in New York City that specifically was precluded from getting Federal funds in an earlier law; \$1.5 million to convert a commercial ship in South Carolina to a maritime museum; \$1.3 million to redesignate a HUD special purpose grant to Hawaii's sugarcane communities.

And I just take those four items as part of a list of 26 and add to the fact that if we take a look at where our interest payments are going, where our debt is going, what we have added in the last—in the economic plan to our debt, I just feel that we need to start looking at very dramatic ways of change. It is trend lines, and I think A to Z is one of those ways to do that.

Mr. OBEY. Each of the items that you mentioned was not part of the added expenditures. They were offset. They came because of actions in the Senate.

I would also make the point that we must not have had any of those items in any of the appropriations bills that you are expressing concern about this year or else I would think the people like you would have been on the floor offering amendments to take them out.

Mr. ZELIFF. I thank you, Mr. Chairman.

I don't want to wear out my welcome, but I do want to thank both of the chairmen for coming before the committee. I think that if we somehow kind of really thought about the process of what we are trying to accomplish here, we would recognize that we are both on the same team and we both want the best for our country. We may come at it from a different point of view.

I hope that you will give us an open mind in what we are trying to accomplish. We will certainly have an open mind in what you are. We would like to get better results and quicker if we can.

[The information referred to follows:]

PORK IN THE EARTHQUAKE SUPPLEMENTAL

THE CALIFORNIA EARTHQUAKE APPARENTLY WAS
STRONGER THAN WE THOUGHT!

Supplemental Appropriations Bill Hits

West Virginia, New York, South Carolina, and Hawaii!

- (26)
- * \$20 million for 500 new employees at an FBI fingerprint facility in West Virginia.
 - ✓ * \$10 million for a post office project in New York City that was specifically precluded from getting federal funds in an earlier law.
 - ✓ * \$1.5 million to convert a commercial ship in South Carolina into a maritime museum.
 - ✓ * \$1.3 million to redesignate a HUD special purpose grant to go to Hawaiian sugar cane communities.
 - * \$250 million for post Desert Storm operations in Kuwait.
 - * \$47.3 million for Air Force and Army procurement.
 - * \$44.4 million for military personnel costs.
 - * \$1.1 billion for military operations and maintenance.
 - * Money to repair the Ochoco Dam in Oregon.
 - * \$300 million for LIHEAP.
 - * \$337,000 in transportation planning for Hawaii.
 - * \$1.4 million to fight the Late Blight potato fungus in Maine.
 - * \$2.3 million for pay increases for FDA.
 - * \$2.0 million for USIA "security and construction projects."
 - * \$2.1 million for more timber harvesting on non-federal land in the Northwest.
 - * \$10.1 million to continue testing a new method to measure unemployment.
 - * \$1.0 million for the Senate Office of Employee-Management relations.
 - * \$133,600 for the widow of Congressman Paul Henry.
 - * \$4.5 million from the Highway Trust Fund for high-speed rail development.
 - * \$550,000 for the US Trade Rep. for travel expenses.
 - * \$300,000 for additional employees at the Council for Environmental Quality.
 - * \$800 million for higher veterans' benefits payments.
 - * Raises the loan guarantee limit for FHA by \$22 billion.
 - * \$40 million for the NASA space shuttle "spacehab" module.
 - * Removes the spending ceiling on the space station's redevelopment.
 - * Creates the office of Undersecretary of Enforcement at Treasury.

1st year

Restricted Appropriations Bills of the 103rd Congress

HR 1335	Emergency Supplemental	CLOSED	11 amendments rejected (10 R/1 D)
HR 2348	Legislative Branch Appropriations	CLOSED	44 amendments rejected (41 R/3 D)
HR 2295	Foreign Operations Appropriations	CLOSED	28 amendments rejected (18 R/10 D)
HR 2667	Disaster Assistance Supplemental	CLOSED	12 amendments rejected (6 R/6 D)
HR 3759	Emergency Supplemental III	CLOSED	9 amendments rejected (3 R/6 D)

27 bills - cuts -
21 accepted

104 amendments rejected (78 R/26 D)

Mr. CONYERS. That is the purpose of these hearings on budget process reform. Chairman Sabo, Chairman Obey, you have begun the process in a very fine way.

We have two dozen more of our colleagues as witnesses and I think you have laid a good foundation. I thank you very much, and I accept your recommendation of some of the witnesses that we should have when we get into the noncongressional part of the hearing.

Mr. OBEY. Mr. Chairman, I thank you.

I would just like to leave with one request. I would ask that people not continually try to paint a worse picture for this country than in fact exists. When we are told all the time that we are near bankruptcy because every man, woman, and child in this country in terms of public obligations owes \$17,000, as was said earlier today by one committee member, in fact, if you look at the debit side of Federal assets and liabilities, it amounts to about \$18,000 in liabilities for every man, woman, and child in the country.

But I find it interesting that people always ignore the asset side of the ledger. In fact, if you take a look at assets, also commonly owned by the taxpayers of this country, we have approximately \$17,000 of assets for every man, woman and child in the country. So that means that we are short about \$1,000 per capita.

That figure got much worse in the 1980's because of the 1981 budget essentially and the decisions that flowed from that. But we are a whole lot healthier as a country than we sometimes like to say in our moments of self-flagellation.

Mr. CONYERS. We thank you very much.

Mr. SABO. I thank the Chair and look forward to continuing to work with you, and if we can be helpful we are available.

Mr. CONYERS. Well, you are a regular visitor to Government Operations and I don't think it is going to change any time soon. Thank you both very much.

I would like now to call the ranking minority member of the Budget Committee, the gentleman from Ohio, John Kasich to the witness table. We are delighted to have you here.

I would like also to call the gentleman from Minnesota, Mr. Tim Penny, as well as the gentleman from Texas, Mr. Charles W. Stenholm.

Welcome, gentlemen. All of you have been here before so you know the ground rules. We will take all your testimony that you have written and agree to put it into the record in its entirety.

Let's start with Mr. Kasich. Good afternoon.

STATEMENT OF HON. JOHN R. KASICH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. KASICH. Thank you, Mr. Chairman.

Mr. Chairman, I do have a complete statement that I would like to enter into the record.

I found the discussion to be very interesting and I hope that we can cover perhaps some of the points that were covered by the previous panel. But what we have agreed to do is to divide this up to save all of you repetition. Is that unbelievable? Is that a first?

Mr. CONYERS. Well, for you it is. And we are grateful.

Mr. KASICH. I come here trying to be under control.

Mr. CONYERS. I bring you praise and commendation from the Chair. That is an excellent idea and we are delighted that you thought of it.

Mr. KASICH. We have four sections to our bill. One has to do with baselines which Representative Stenholm is going to cover today. Enhanced rescission, which I don't know if we have decided who is going to cover that. And then Mr. Penny is going to cover the lockbox. And I am here to talk about the other part of the proposal that has to do with the emergency spending.

We tried to put together a common sense proposal that makes some fundamental changes in the way in which we do business as it applies to the budget process.

Our proposal brings in two separate provisions. One is to require that if we are going to have an emergency appropriation bills, that those bills be limited to just one single emergency and that we don't stick four or five emergencies under the roof of one emergency. We think that each of these emergencies ought to be considered by themselves. They ought to be given the scrutiny that they deserve by themselves. This would prevent too many things from being considered emergencies because if everything becomes an emergency, then you could really make an argument that therefore nothing is an emergency, and if it is a critical item, and many of these items are, they ought to be considered separately.

Second, the proposal that we have has to do with the nature of creating Christmas trees in emergency bills. Not only do we sometimes put more than one emergency in each emergency bill, but we also add a significant amount of nonemergency spending to these bills.

Mr. Chairman, there have been a lot of efforts here in this Congress recently to try to restore some credibility to the way in which we do business. And I think we can all agree that it does not serve this Congress very well, not Republicans nor Democrats—nor does it enhance confidence in the American people when they hear about an emergency bill for an earthquake in California only to pick up the paper the day after the bill passes and read about a whole host of items that clearly are not emergencies.

I want to tell you a little bit about the history of the recent emergency spending bill for the Los Angeles earthquake.

Mr. Nussle, Mr. Penny, myself and Mr. Condit felt as though even though this was an emergency and should not be included under the caps, we felt we should go ahead and try to pay for it. This January 27th date I think is probably a Thursday. At that point the funding for the earthquake was at about \$6 billion. So we scampered around down at the Budget Committee and came up with \$6 billion worth of offsets. On Monday, the bill had grown from \$6 billion to nearly \$10 billion.

And you can see, I actually have a chart that shows everything that happens. It is a flow chart but I think this kind of describes it. As you can see, the longer we waited in terms of passing the earthquake funding, the more nonearthquake funding was added to the bill.

Now, some people might want to blame the administration, but I think what typically can happen is a Member of the other body can call down to the White House and say, hey, I got something

here I would like to have included in the emergency. It is a nice way to get my project through, plus, it won't count against the caps. How about putting it in there? And a White House of either party, which would always be looking for votes when tough things come up like the health care plan or something that could happen in a Republican administration, really doesn't have a lot of incentive to say no, frankly. So, a lot of these projects get added. There you see the growth in the nonearthquake funding.

Now, I must tell you that the definition of an emergency is based on everybody agreeing that something is an emergency. These are items that we pulled out of the bill that we considered to be non-emergency. And, Mr. Chairman, for the sake of bipartisan participation we have in here \$20 million for a fingerprint lab, but for the first time that this has ever been presented, you notice it didn't have the State in which it is being built. I specifically requested that that be deleted in the spirit of bipartisanship.

Anyway can you see \$1.4 million to fight potato fungus and \$10 million for new Amtrak station, \$40 million for the space shuttle, \$5.2 million for public debt modernization, \$100 million for DC, \$55 million for the U.S. Trade Rep. And you might also remember, Mr. Chairman, that we had a significant chunk of money related to the Defense Department included in the bill. And, in fact, Mr. Frank and I believe Mr. Shays moved to try to strip that out and not have it included as that part of the emergency.

Our bill, the Budget Reform Act, basically says, let's have one bill for one emergency. Let's not put more than one emergency in each bill. And let's keep the nonemergency funding out of the emergency bills.

I think that this is a proposal that we clearly ought to adopt. And I think it can receive strong bipartisan support. I think it can be supported strongly in both the House and the Senate. And frankly, I think that members of the media would look at a proposal like this favorably and would go a long way toward eliminating those stories that we read after we try to do something to help people in a particular part of the country.

Mr. CONYERS. But the nonearthquake funding part could not be subject to any point of order that you know of, could it?

Mr. KASICH. No, because they lop it all in the emergency bill.

Mr. CONYERS. Could the Rules Committee exercise greater scrutiny in that area before it comes to the floor? Might that offer another outlet for scrutiny?

Mr. KASICH. First of all, if the administration wants to send a passage up here, that becomes a problem. But second, we have essentially operated under the assumption that the Rules Committee can knock certain things out. But it doesn't seem to work very well because people are not trying to be unreasonable here. And I think what this proposal would do would be to create a clean way to do it where nobody has to be accommodated to anybody else.

The rules should be clear. And the purpose of the emergency definition in the 1990 Budget Act was essentially to just say, if you have a legitimate emergency, one that both the Congress and the President agrees is an emergency, then it won't count against the caps. We could have that argument but we decided to not have that one.

But what we thought we should say is, let's keep it consistent with the 1990 Budget Act, and in fact, Mr. Chairman, in the House we ultimately ended up paying for a portion of the nonearthquake funding because of the debate that began on the House floor in terms of paying for the whole package. I just think this is the easiest way to do it and really accomplishes what the spirit of the law was in regard to the way in which we do emergencies.

And why don't I stop there and let my colleagues explain their part of the package and then we can go to questions.

Mr. CONYERS. Very good. Tim.

STATEMENT OF HON. TIM PENNY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. PENNY. My assignment is to talk about the second provision in the Common Cents Budget Reform Act. That is the provision titled "a cut is a cut," otherwise known as a deficit reduction lockbox.

Before I do that, I want to make a few observations. I was intrigued by Chairman Obey's analysis of the national debt. He lamented that we only concentrate on how much we owe, which is about \$17,000 per man, woman and child in America. And, in fact, he acknowledged that by taking into account other factors, that number really becomes about \$18,000 per capita. He then suggested that a more honest analysis would be to include the assets of the Nation. When factored in the assets fall about \$1,000 short of the liabilities. That is like borrowing against the house and then some.

For an individual—that is like selling off the house and then still having debt, so I don't find the Obey approach a terribly encouraging way of looking at that debt problem that we have in America. That is exactly why Republicans and Democrats continue to raise these deficit reduction issues, even though it antagonizes some of the top leaders in this institution.

The fact is that business as usual leads to deficit spending. We have demonstrated that over the years. And, frankly, if you look back in the past dozen years, the only time that we made any headway in terms of cutting the deficit is when we set aside business as usual.

We had a blue ribbon commission led by Alan Greenspan back in 1982 and 1983 that provided Congress a package of reforms that salvaged the Social Security system. We didn't develop that legislation within the Congress. We had to pass that responsibility to an outside group. We went outside the normal procedures because it was such a touchy issue that we couldn't handle it without a little bit of cover. So we had to go around or outside of business as usual to get that done.

I heard earlier in the testimony today a disparagement of the Gramm-Rudman-Hollings process being disparaged. You know, it was not perfect and we had to make some changes on a couple of occasions in that process. But G-R-H forced us to make some decisions about the deficit that otherwise we would not have confronted.

And frankly, during the first few years of the implementation of the Gramm-Rudman-Hollings process, we did see declining deficits. It was only when the requirements of Gramm-Rudman-Hollings

came to a point where they bit a little harder that we backed off and modified it and readjusted the deficit reduction schedule. So it wasn't Gramm-Rudman-Hollings that failed, it was us.

We were afraid to take the deeper cuts in those years. We backed away and reworked G-R-H and eased the political pain a little bit. The political pain, but we didn't do a better job of reducing the deficit by suspending the original Gramm-Rudman-Hollings requirements.

We created the base closing commission in 1987, the first time that we ever seriously closed any military bases in this country. Now with the end of the cold war era, we can continue to close more bases. But, again, that went outside the normal procedures. It was an insult, I am sure, to the authorizing committee, but when the authorizing committee hadn't closed a base in 20 years, I think it was reasonable to suggest that maybe the normal process was not getting the job done. Now the base closing commission is getting the job done.

In 1990, the budget deal produced a change in our budget philosophy on Capitol Hill by instituting a pay-as-you-go principle. Under that pay-as-you-go requirement in the 1990 budget, we now cannot add new entitlement programs without finding some offsetting revenues. One of the reasons we are going to face an agonizing process in the next few weeks is because we have to find a way to pay for the lost tariff revenue under the new GATT agreement. It is not fun, but it is honest.

If you lose revenue, you make it up somewhere. If you propose a new entitlement spending program, you make it up somewhere. It is honest budgeting and that pay-go process was not part of the normal procedures around here for many, many years.

Now it is, and it is beginning to have a bite. We also put spending caps in that 1990 budget deal and we retained those spending caps in the 1993 budget. As we have witnessed on the House floor the last couple of weeks, these appropriations bills, in order to accommodate some high priority items, have been making cuts in another parts of the budget. Here again, making room for the new by cutting the old.

And that is what honest budgeting is all about. The pay-as-you-go principle is something new to the process. It was not normal procedure around here to budget in that way until the last couple of years, but changing the budget process has begun to make a difference.

So normal procedures have not worked. And they make no sense because there is no bottom line under normal procedures. The only way we get to the bottom line and force a debate over priorities is to change those normal procedures and that is what our common sense budget reforms are all about, is bringing some sense to this budget process.

In our common cents budget proposals, we have talked about changing the baselines so that we no longer automatically inflation adjust for every program in the budget, then making it appear that a reduction in the increase is actually a cut when the program is still getting more than the program received the year before. We are talking about entitlement reforms and an entitlement cap so

at we have to honestly address the growth in the entitlement programs from year to year.

We are talking about emergency spending revisions and my colleague, Mr. Kasich, has just discussed that item and how we want to clean up the emergency spending bills so that these unrelated items are no longer allowed. Finally, we have proposed that cuts ought to be cuts. If you bring an amendment to the House floor in any of these appropriations bills, you ought to be able to designate that it go for deficit reduction so that we don't have a process where the money is cut out of one program and spent somewhere else.

We allow flexibility for the author of the amendment to transfer that money to another program on a pay-as-you-go program basis. If a legislator determined to save that money and apply it to the deficit, they ought to have that option and that is what the "cut a cut" provision in this budget reform package is all about. We want to make a cut, a real cut and that is what common sense budgeting entails.

With that, Mr. Chairman, I would have no further remarks at this time and would defer to my colleague from Texas.

Mr. CONYERS. The gentleman from Texas, Mr. Stenholm, welcome again.

STATEMENT OF HON. CHARLES W. STENHOLM, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. STENHOLM. Thank you, Mr. Chairman. The first point would make is the Common Cents Budget Act was never intended to be a substitute for the A-to-Z process, it was meant to complement it. You have heard the first two explanations of two of our four proposals today. I would like to talk just briefly about the concept of baseline budgeting.

With all due respect to my chairmen and others who spoke before regarding the fact that we already do this, my experience has been that if we already do it, it is very difficult to understand it. And that is what we are talking about here is trying to take what we are already doing and put it in plain English so the people in the 7th district of Texas or Michigan or New Hampshire or anywhere can understand what we are doing.

They do not understand, nor do we understand what we are doing when it comes to budgeting. And anybody that is halfway honest will have to admit that. Just today, for example, we had the Labor-HHS-Education Appropriation bill on the floor. I voted for various cuts.

But I had every intention of supporting the bill on final passage because it was below what we spent last year; one of the criteria that I used. When I was on the floor I had a colleague that showed me the Democratic Whip Organization's information that showed that was not below, it was above by \$2.5 billion. The committee said it was below and the Whip Organization said it was above.

Which was it? My staff is working on this to find out. So far nobody has been able to answer our question.

Mr. CONYERS. Stay tuned and we will find out after the vote.

Mr. STENHOLM. Yes, you better believe it. But that is part of my point.

Last year, too, in another frustrating thing, and again the spirit in which we come here today is saying could we not do some things to make the process of the legislative process of the House of Representatives work better so people felt a little better about us? I have felt that if we are going to talk about spending cuts we should start at home.

We should reduce the legislative budget. I have been told every year for the last 3 years that we are doing that and when I was told we were doing that, I assumed that we are doing that and I do not bring any characterization of the character of any of my colleagues because I believe they believe when they told me that we were doing that that they believed it.

We come to the floor this year and we see instead of the legislative budget going down, it is going up. Now when you go home and you tell your people that we are cutting and you believe that we are cutting and we haven't cut, something is a problem.

Now, that is what we suggest. You have heard already that what we are suggesting is heresy. Something is not working. If not this, then what? And the little part that I am here to talk about, it seems to me that it would not be too difficult for us to agree on what we spent last year. And whatever process of the budget we go through, we use that figure.

This is how much we spent last year and is this how much we are spending. We fully acknowledge that those programs that are protected by law that have COLAs, you should designate that. You should say here is what we spent. The COLAs say this much and put that in the budget. People understand that.

The final point I would make, whatever our colleagues say about what we are doing, pardon the grammar, but it ain't working with the folks down on Main Street. Folks that have to meet a payroll, they understand when you talk about cuts.

If you have got \$100 this year and you get \$99 next year, that is a cut and \$101 is an increase. And no amount of explaining in our "budgetese" language is going to change that and what we are suggesting is make it absolutely critically clear to every Member of the House of Representatives, everyone that deals with budget matters will have that one number so that when we go to the floor we will have available on every document before us what we spent last year and what is proposed to be spent this year.

Also, I would mention that you will hear from Chris Cox on a proposal that I am happy to cosponsor with him and other Members about some of the individual proposals. I think Chris goes into quite a bit of detail of additional budget process. I think it is very worthy of consideration.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Stenholm follows:]

Statement of Rep. Charles Stenholm
Before Government Operations Committee
Subcommittee on Legislation and National Security Affairs
Budget Process Reforms
June 29, 1994

Mr. Chairman and members of the Government Operations Committee, I appreciate this opportunity to testify on the Common Cents Budget Reform Act

that I have introduced along with Tim Penny and John Kasich. I welcome this opportunity to explain our proposals and listen to any concerns and suggestions that the members of this committee have about our legislation.

I would like to underscore the point in our prepared joint testimony that our budget reform proposal is completely separate from the A to Z process. Our proposals compliment the A to Z process by making long-term changes in the budget process to make it easier to cut spending and reduce the deficit, but they are not a substitute to the open and thorough examination of the federal budget proposed by the A to Z Spending Cut Plan. Although there have been many reports that Common Cents was an alternative to A to Z, this has never been the case. I began working on these proposals in the beginning of the year when the Budget Committee began its consideration of the budget resolution,

well before the A to Z discharge petition was filed.

Earlier this year I had hoped that the Budget Committee would recommend a reconciliation bill which would make additional reductions in entitlement spending and allow us to make reforms to the budget process and was disappointed when the decision was made to avoid this course of action. I was pleased, however, that we were able to attach Sense of the Congress language to the resolution which called for enactment of several budget process reforms. I also was pleased that there was an agreement for the consideration of further budget process votes within the House of Representatives. As a result of the commitment to allow the House to debate and vote on budget process reform legislation, Tim Penny, John Kasich, and I sat down and developed the Common Sense proposal.

The defenders of budgetary status quo argue that the process is not the problem. They argue that if we simply make the tough choices, we don't need to change the process in order to deal with the budget deficit. As members who have made many of those tough votes, the three of us disagree with this view. The process by which we make decisions and the way that we talk about the choices we face have a tremendous impact on the outcome of policy.

The folks down at the Sweetwater coffee shop can't make heads-or-tails out of the federal budget process because it is so full of things called baselines and 602(b)s and spending "cuts" which always manage to increase the deficit. It's time for us to take some of the confusion out of our budget process, to say what we mean and mean what we say.

We think levelling with taxpayers is the least Congress should do. The current budget process is enormously confusing and strongly biased in favor of the status quo and deficit spending. That's why we've proposed this legislation -- to make the budget process more honest and understandable.

We start by bringing greater honesty in the practice by which we measure our budgets and budgetary decisions. Baseline budgeting, the process in which spending is automatically assumed to increase for inflation and other factors, has thrown budget debates into "Alice's Wonderland" by making it appear that programs were incurring a spending cut when in fact they simply were receiving a smaller increase than expected.

Our legislation would require that budget proposals compare their budgets to the amount actually spent the prior year rather than against some prognostication of future spending. We should recognize increases in spending for what they are and not talk

about cutting spending when we really are increasing spending.

The folks I represent in the Seventeenth District of Texas understand that if you received 100 dollars last year and receive 99 this year, that is a spending cut. If you receive 101 dollars this year, that is an increase, even if you expected to receive 102 dollars this year.

Right now we find ourselves in the appropriations season. I have bragged about the discretionary spending "hard freeze" we enacted last year. Therefore, one of the most important considerations I make in trying to decide whether or not to support final passage on a given appropriation bill is how this year's spending compares with last year's. I have to tell you that I have been extremely frustrated in trying to determine whether some of the appropriations bill have increased or decreased. It is easy to find comparisons with the amount requested or with the "current services" amount. But it can be extremely difficult to find comparisons with last year's appropriations.

In fact, when the House voted on the Legislative Branch appropriations bill last year, I asked my staff what I thought was a simple question: Has spending on the legislative branch gone up or down from last year. I did not realize that my staff would spend the rest of the morning looking for an answer to that question. It

was remarkable the number of people who were surprised that anyone would even want this information.

I completely concur that there are programs that need and deserve increases in spending from last year's level for any number of good and valid reasons. Our legislation does not prevent us from increasing spending on programs. What it does is force us to debate these increases for what they are and require that supporters of programs justify why they should be increased instead of relying on current services budgeting to be a de facto justification itself.

Our legislation does allow the baseline to reflect increases in spending that are required by law such as COLAs and other entitlement programs. We seek to bring greater accountability to these programs, however, by requiring the Congressional Budget Office to report on the specific reasons for growth in these "blank check" items. By bringing greater attention to all of the sources of growth in entitlement spending, we hope to further the educational process about these programs.

I also wanted to mention that the legislation that Chris Cox will describe later in this hearing preceded and expands our proposals. My colleague's legislation will bring greater attention to these open-ended programs by requiring that Congress budget for

all programs, including entitlements, each year and enforce the spending limits set out in the budget resolution. I will let Chris explain his legislation in greater detail, but I want to add my strong support for his proposals.

I also wanted to make a brief comment on the issue of emergency spending. In addition to the restriction on emergency appropriations in the Common Cents plan which John will describe, there are other proposals which deal with the issue of paying for emergency spending. I have cosponsored legislation with Representative Sam Johnson which requires that the discretionary spending caps be reduced in the subsequent fiscal year by the amount of emergency spending in a fiscal year. Representative Mike Castle has introduced legislation providing for the creation of a disaster reserve fund. I look forward to hearing the suggestions of Dick Durbin's task force on emergencies. I strongly encourage this Committee to work with these Members and others interested in this issue to develop a consensus that will put an end to the practice of routinely adding spending for disaster relief to the national credit card, which now is \$4.7 trillion in debt.

I look forward to working with this committee in moving forward on budget process reforms.

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EDITORIALS**BUDGET DIET****Stenholm plan would reduce the federal girth**

The primary function conservative House Democrats like Rep. Charles Stenholm, D-Stamford, and Tim Penny, D-Minn., play is to keep their leadership fiscally honest. Such deficit-minded legislators may not always be successful in bringing along their party's leaders. But the Stenholms and Pennys keep pressure on spend-happy House Democrats to remember that while the \$180 billion deficit is declining, it will only increase unless further fiscal restraint is exercised.

That awareness is why Democratic Reps. Stenholm and Penny, and Republican John Kasich of Ohio, have introduced a plan to reform the budget process. Their Common Cents Budget Reform Act is aimed at reversing what the authors term "the bias toward higher spending in the existing budget process."

That real bias could be countered by enacting several reforms:

- Stop agencies from automatically including inflation increases when projecting their budgets from year to year. If you spend \$100 million one year, that's the figure you build your budget upon for the next year. No automatic hikes can be included.

- When Congress kills a program, the reductions should actually lower the deficit. Currently, when programs like the Superconducting Super Collider are killed, the funds often flow into other parts of an

appropriations bill.

The reform measure would change that phenomenon this way: If Congress kills a billion-dollar program, the \$540 billion cap that now limits annual congressional spending on all discretionary programs (roads, defense, the environment, etc.) would likewise be reduced by \$1 billion. Congress would thus have only \$539 billion available to spend the next year.

- Limit legislators from adding multiple expenditures to so-called emergency spending bills. Ever since the 1990 budget act, Congress has had to meet emergency needs, such as arose from the California earthquake, with separate appropriations.

Yet legislators have been known to tack on to such bills requests for unrelated spending projects. The Stenholm reform bill would curtail the clever piling-on through limiting emergency authorizations to only one emergency. So if California quakes, New York could not slip in funding for a train station, as occurred recently.

The full House could vote on the "Common Cents" package before the July Fourth recess. If the Democrat-controlled House is interested in the future generations that will be stuck with the present deficit, they will follow the advice of their responsible Democratic colleagues and support this budget reform measure.

Major Differences Between H.R. 4434 – Stenholm-Penny-Kasich "A Cut is a Cut" Proposal and H.R. 4057 – Schumer, Brewster, et al "Deficit Reduction Lock Box" bill.

Issue	H.R. 4057 (Schumer)	H.R. 4434 (Stenholm)	Differences
Outyear adjustment of outlay caps	Outlay caps are reduced to reflect outlay savings resulting from the budget authority placed in the lock box for the first fiscal year only. Outlay savings realized in the outyears as a result of budget authority placed in the trust fund would be available to be spent.	Outlay caps are reduced to reflect reductions in outlays that OMB estimates will result in all fiscal years resulting from the budget authority placed in the trust fund. All savings resulting from funds placed in the trust fund would be applied to deficit reduction.	H.R. 4057 does not reduce the outyear caps to reflect outlay savings resulting from cuts in budget authority. As a result, approximately half of the actual savings from cutting appropriations bills would not be applied to deficit reduction because the caps would not be reduced in the years in which the savings are realized.
Ability to earmark savings for other programs	Author of the amendment may indicate that the funds are to be spent on "another program, project, or activity covered by that bill."	Money would be placed in trust fund unless the amendment indicated that the funds should not be placed in the trust fund. The author of the amendment would not be able to earmark the funds for a specific program, but they would be available to be reallocated to other programs by the Appropriations Committee.	Both H.R. 4057 and H.R. 4434 provide members with the flexibility to indicate whether or not the funds will go to deficit reduction. H.R. 4057 restricts members to allocating the savings to another program within the same bill. H.R. 4434 allows the funds to be reallocated at the Appropriations Committee's discretion.
Accounting for years 602(a) allocation is below the caps.	No provision. The caps would be reduced by the amount that a bill is below its 602(b) allocation.	If the 602(a) allocation is below the discretionary spending limits, the difference would be placed in the deficit reduction account of the Treasury-Postal Appropriations bill and the discretionary caps would be reduced accordingly.	If the caps are above the above the 602(a) allocation, reducing the caps by the amount that the appropriations bills are below the 602(b) allocations would be irrelevant. This was not anticipated when H.R. 4057 was introduced, since the 602(a) allocation has been equal to the caps in the past.

Testimony of

**Representatives Charles W. Stenholm
Timothy J. Penny
and
John R. Kasich**

**before the
SUBCOMMITTEE ON LEGISLATION AND NATIONAL SECURITY
of the HOUSE COMMITTEE ON GOVERNMENT OPERATIONS**

**regarding
THE COMMON CENTS BUDGET REFORM ACT OF 1994
(H.R. 4434)**

June 29, 1994

INTRODUCTION

Mr. Chairman, thank you for this opportunity to present to your subcommittee our proposal for reforming the federal budget process — the Common Cents Budget Reform Act of 1994. We know you share our interest in assuring that the methods by which we in Congress allocate the public's money are sound, reasonable, and responsible. We are confident that by working together, Members of Congress can reform budget procedures so they make more sense to us and — more important — to the people we serve.

Let us make a few general points at the outset.

First, this budget reform proposal should be viewed as completely distinct from the "A-to-Z" spending reduction process that is currently being developed. Our plan is not — and never was — intended as either a complement to, or replacement for, the A-to-Z approach. Indeed, all three of us are cosponsors of the A-to-Z plan and the discharge petition that calls for bringing it to the floor. We began developing this Common Sense process reform bill on March 17, the day the House failed to pass a proposed balanced budget constitutional amendment.

Second, we recognize that process reform alone is not a panacea for the chronic deficit spending problem that faces this Congress. Control of federal spending depends, above all, on the consistent will of the Congress. No refinement of procedures, no manipulation of budget rules, can substitute for Congressional resolve.

The process can, however, provide incentives or disincentives for making budgetary decisions in a way that best serves the public. The current process is not a complete failure in this regard. But in the 20 years since the Congressional Budget and Impoundment Control Act was developed, we have witnessed a pattern of runaway spending and chronic federal deficits. To the extent that reforming the Budget Act can nudge Congress toward greater control, accountability, and simplicity, such reforms should be pursued.

Furthermore, language has consequences. In so far as the current budget process contains rhetorical biases that favor higher spending, it promotes higher spending. Eliminating these biases in language would help control spending impulses *in reality*.

Our bipartisan proposals for reforming the budget process are straightforward and non-controversial. They *are* rooted in common sense. The Act contains four basic reforms: 1) It reforms the budget baseline process to change the underlying psychology that assumes automatic spending growth in virtually every federal program. Under CCBRA, budget proposals will be compared to the amount *actually spent* in the prior year, rather than to an inflated "baseline." 2) It ensures that savings from cuts in appropriations bills may be directed to deficit reduction instead of new spending. 3) It compels Congress to vote on rescissions proposed by the president, rather than letting rescissions die if Congress fails to act on them. 4) It halts the use of "emergency" spending bills as magnets for non-emergency or other controversial spending by limiting each emergency bill to one specific emergency and excluding all extraneous provisions.

We also wish to note that we intend to offer one of our specific reforms — the expedited, enhanced rescission procedure in Title III of our bill — as an alternative to the Expedited Rescissions Act (H.R. 4600) being sponsored by Representative Spratt.

TITLE I: ELIMINATING INFLATED BASELINE BUDGETING FOR DISCRETIONARY PROGRAMS Comparing Cuts to Real Spending Levels

Our proposal begins with a fundamental reform of the baseline budgeting process: It requires that proposed spending for discretionary programs be compared to actual current-year levels, rather than solely to inflated projections of those levels for the forthcoming fiscal years.

Current law requires budget proposals to be measured against a "baseline" — which includes an automatic adjustment for inflation plus all legislated changes scheduled to take effect¹ — rather than against actual spending levels. Against this "baseline," any effort to simply slow down spending growth is shown as a cut, even if spending for the program would actually be higher than in the previous year. Professor Allen Schick of the University of Maryland, an expert on Congressional budgeting, explains the process as follows:

The baseline assumes that existing programs will continue without policy change. It adjusts projected expenditures for estimated inflation and mandated workload changes. A simple example will show how a baseline is constructed and used. A program spending \$100 million a year and projected to have an annual 5-percent increase in participants and a 5-percent inflation rate would

have approximately a \$110 million baseline for the next year, a \$121 million baseline for the second year, and a \$133 million baseline for the third year. These hypothetical extrapolations are highly sensitive to the assumptions underlying them. Any action projected to reduce spending below these hypothetical levels would be scored as a cutback, even if spending would still be above the previous year's.²

Table 1 below shows an illustrative set of proposals to "cut" spending in particular program areas. The total amount of these supposed cuts ranges from zero to \$6.65 billion in Fiscal Year 1995. But this does not represent a reduction from total actual 1994 spending levels for these items; it only reflects an aggregate reduction from the 1995 "baseline." That baseline already is higher than 1994 actual spending, because the baseline incorporates increases for inflation and other changes in law that will increase program obligations. When compared to actual 1994 spending levels, the total of these ostensible "cuts" is shown to be what it truly is: an aggregate spending increase. As a result, the \$11.020 billion in spending cuts recommended in this group of proposals actually represents \$17.698 billion in spending *increases*.

TABLE 1
Dollars in Millions

PROGRAM	CHANGE FROM		5 YEAR CHANGE FROM	
	FY 95 BASELINE	FY 94 ACTUAL	FY 95-99 BASELINE	FY 94 ACTUAL
Limit Rate of Growth for the National Science Foundation	-30	114	-476	1,765
Restructure the State Department - Freeze*	-77	25	-965	174
Freeze International Security Assistance**	-142	1	-2,202	5
Freeze the Peace Corps	-6	3	-92	36
20% Coinsurance for Home Health Care***	-2,012	-112	-15,418	10,882
20% Coinsurance for Clinical Lab Services***	-796	-196	-6,352	4,048
Reform Marshals Service	-5	9	-25	186
Reduce Funds for BATF	-2	15	-10	238
Limit the Growth of Foster Care Administration to 10% Per Year	0	438	-150	5,483
Freeze Medicare's HI Payment Rates and Limits for One Year***	-1,300	5,800	-8,450	104,650
Freeze COLAs for One Year in Non-Means-Tested Benefit Programs***	-6,650	11,801	-54,850	250,755
TOTALS	-11,020	17,698	-88,990	378,200

* Added \$62 million to "1995 Proposed" for termination of U.S. Institute of Peace (\$11 million), Asia Foundation (\$16 million), East-West Center (\$27 million) and North-South Center (\$9 million). Acquisition and maintenance of buildings, salaries and expenses, and diplomatic and consular programs are included in this option.

** Economic Support Fund and Foreign Military Financing Grants are included in this option.

*** February 1994 baseline

This outcome is magnified in the five-year calculations. By this reckoning, these proposals call for \$88.99 billion in spending reductions. But again, these are cuts only from the baseline. When calculated against actual 1994 spending, these proposals actually *increase* spending by \$378.2 billion over five years. Yet if these proposals were adopted, we in Congress would call them spending cuts — because that's how the current budget law describes them. The approach invites growing cynicism on the part of the taxpayers, who are left on their own to understand how Congress can cut so much spending and still produce larger budgets every year.

Representatives Stenholm,
Penny, and Kasich

The Common Sense Budget
Reform Act - Page 3

The baseline's bias toward higher spending is not only rhetorical. The practice gives an *actual* impetus toward higher spending as well. Professor Schick explains in the following passage how this effect develops:

The current services budget . . . complicates doing that which is difficult to do under even the most favorable circumstances — cutting into the base. This is a significant bias because the difference between "current expenditures" and "current services" often is the effective margin of choice for congressional decision makers. That is, when they cut programs, they frequently do so by holding the dollar increase below the rate of inflation.³

The baseline assumptions also create a higher-spending bias among claimants — the agencies and individuals receiving federal funds. Professor Aaron Wildavsky has described this pattern, from the point of view of recipients, as follows:

This [the current services budget] is misconceived. The idea is that everybody who has a claim on the federal Treasury, for whatever reason, deserves not only to get what they had last year in outlays, but to make up for whatever inflation there has been, and therefore, Congress and its Budget Committees have to chase after them to claw money back if that is necessary. It should be the other way around, that the collective comes first. You speak for the common interests. No individual interest has the right to say "I come first," which is to say, everybody gets the outlays that they had and if they want the inflation, then they have to come back to you to get it and you in your political wisdom should decide how much of that they should get.⁴

Our budget reform proposal addresses this issue in the following ways:

- ▶ It amends the legal definition of the baseline so that it no longer assumes automatic growth in discretionary spending due to inflation.
- ▶ It requires both the president and Congress to compare their budgets to the *amount actually spent* the prior year, rather than solely against the inflated baseline.
- ▶ It stipulates that Congressional Budget Office (CBO) cost estimates of pending legislation must include a comparison to the change in spending *from the prior year's level*.
- ▶ It instructs CBO to enumerate all the programs funded on an automatic, open-ended basis rather than subject to annual Congressional review (entitlement programs) and identify the reasons behind their projected growth.

TITLE II: CHANGES IN DISCRETIONARY SPENDING LIMITS

Capturing Spending Cuts for Deficit Reduction

One reason Congress's efforts at deficit reduction always seem to fall short is that they don't go far enough to begin with. Consider, for example, floor amendments to cut spending from appropriations bills. When these bills reach the House floor, Members often attack specific programs by offering amendments that reduce or eliminate funding for those programs. These amendments, which often are well-intentioned, may affect everything from the space station to a

federal agency's overhead costs, and the proponents can use the need for deficit-reduction as one of the arguments in support of their recommendations. The problem is, the "savings," if adopted, rarely reduce the deficit. This is because there is currently no way to dedicate the funds to the deficit; the money saved can still be spent elsewhere.

To correct this problem, the Common Cents Budget Reform Act would do the following:

- ▶ It would allow Members of Congress to designate that all or some of the savings from any floor amendment to an appropriations bill be directed to deficit reduction.
- ▶ It would ensure that the proceeds from spending cuts actually go to deficit-reduction by automatically adjusting the discretionary caps by the amount of the savings. (Our proposal differs from that of Representatives Schumer and Crapo, H.R. 4057, in that ours would lower the spending caps for the first year and the out years, whereas theirs would affect the cap only in the first year.)
- ▶ It would enable the Congress to reassert direct control over discretionary spending by reducing the cap on discretionary spending if the budget resolution establishes a lower limit on appropriations than allowed under the discretionary cap.

To preserve the prerogative of the Appropriations Committees, our bill still would allow appropriators to maintain reserve funds for future needs. Nevertheless, the cause of deficit reduction would be enhanced simply by empowering Members to direct their spending cut efforts toward the deficit — through procedures that do not exist now. This would contribute to greater truth in budgeting, because amendments offered as spending cuts would actually cut spending, rather than simply causing it to shift from one account to another.

TITLE III. EXPEDITED, ENHANCED RESCISSIONS AND TARGETED TAX BENEFITS

Compelling Action on Spending Cuts and Targeted Tax Breaks

Before the mid-1970s, it was typical for Congress to reduce the amounts of spending that presidents requested throughout government agencies. The sums approved in appropriations bills were considered ceilings, not floors. Congress tended to provide less than presidents asked for. Since 1974, however, appropriations bills have required presidents to spend *at least as much as* appropriated. If a president doesn't want to spend all the money given to him, he must ask Congress for permission not to spend it — through a measure called a "rescission" bill. Congress can force a president to spend every nickel anyway by simply ignoring the rescission request.

Nor can a president force Congress to reconsider specific tax breaks that benefit only particular special interests.

The current rescission process resulted mainly from Congress's frustrations with the Nixon Administration's use of "impoundments." For 170 years presidents had, with little controversy,

used impoundments to save budgeted money that no longer needed to be spent. The first recorded impoundment came from Thomas Jefferson, who — after the Louisiana Purchase in 1803 — refused to spend \$50,000 for Mississippi River gunboats that, until then, were needed to protect the nation's borders. From Jefferson's time on, most impoundments reflected an administration's ability to carry out Congressionally mandated programs with less money than anticipated.

This changed with the Nixon Administration, according to the following account by Joel Havemann, a former reporter at the *National Journal*:

After 1970, Nixon's impoundments took on a wholly new character. Sometimes the president used impoundments to save money when circumstances no longer required its expenditure, but more often he simply refused to spend funds that Congress provided for programs that he did not like. During his campaign for reelection in 1972 Nixon repeatedly condemned the Democratic Congress for failing to bring federal spending under control. After his reelection he put a large number of federal programs under the guillotine. Among the victims: half of the \$18 billion program for sewer construction; four of the biggest federal housing programs; seven community development programs, including urban renewal and model cities; five Agriculture Department programs; and a variety of education and health programs. Altogether, the Nixon Administration withheld at one time as much as \$18 billion in funds voted by Congress for specific purposes.⁵

Congress's desire to disable Nixon's aggressive impoundments was a main reason for the 1974 budget reform, and the result was the rescission process as it currently stands. (Impoundment Control became Title X of the 1974 budget reform.)

Under the current process, if a president wants to reduce or eliminate specific funding amounts in the current fiscal year, he must ask Congress for permission through a rescission proposal. The problem is that nothing requires Congress to vote on the rescission. If Congress fails to act within 45 days, the rescission proposal dies and the administration must spend the money appropriated. Data from the General Accounting Office show that since 1974, presidents have proposed 1,019 rescissions totalling \$69.6 billion. Of these, Congress accepted 354 rescissions as requested, totalling \$21.6 billion. The remaining \$48 billion of presidential rescissions were not accepted.

The point is *not* that Congress necessarily should have accepted all the rescissions presidents proposed. That is a matter of Congressional discretion. But Congress should have been required to exercise that discretion in a publicly accountable way — by voting on them. As the law currently stands, nothing requires Congress to declare its position on the president's recommendations; Congress can reject them by simply ignoring them. Thus, Congress never was required to vote up or down on the \$48 billion of presidential rescissions that were not accepted.

The Common Cents Budget Reform Act recognizes these problems and tries to address them without weakening Congress's role in spending decisions. It does not grant undue budgetary power to the executive branch. It simply requires that Congress must vote on presidential rescissions. Thus, Congress no longer could defeat a president's spending reductions simply by ignoring them; the House and Senate would have to vote one way or the other. To improve the rescission process, the Common Cents Budget Reform Act would do the following:

- ▶ It would grant the president the option of earmarking savings from proposed rescissions for deficit reduction.
- ▶ It would enable the president to force a vote on excessive or low-priority spending amounts without vetoing an entire appropriations bill. The president also would be enabled to strike targeted tax preferences in a similar fashion.
- ▶ It would require the Congress to vote on any package of cuts in spending or repeal of targeted tax benefits submitted by the president.
- ▶ It would allow the Congress to vote on individual items within the president's package.
- ▶ It would preserve the Appropriations Committees' prerogative to move their own rescission bills.

None of these reforms would force Congress to accept a president's rescissions. They would, however, force Congress to be accountable: Congress no longer could dodge the question by looking the other way; it would have to vote expressly to accept or reject rescission proposals made by a president.

Two additional points regarding this expedited rescission proposal should be made.

First, a rescission bears a distinction from a line-item veto that often is ignored. A line-item veto requires a president to strike an entire line in an appropriations bill. A rescission allows a president or Congress to rescind only a portion of the funding for a program. Therefore, a rescission may be considered more flexible than a line-item veto.

Second, as noted above, we intend to offer our rescission proposal on the House floor this week as an alternative to the Expedited Rescissions Act (H.R. 4600) to be offered by Representative Spratt. In that regard, we wish to note the key distinctions between our rescission proposal and the underlying measure that will be considered by the House.

- ▶ H.R. 4600 is only temporary. It would strengthen the president's rescission authority only through the end of the 103rd Congress (roughly another six months). Our proposal would strengthen the authority permanently.
- ▶ H.R. 4600 applies only to appropriations bills. Our amendment would apply to appropriations *and* targeted tax benefits.
- ▶ Third, H.R. 4600 offers no guarantee that savings from a rescission would go to deficit reduction. Our proposal allows the president to designate a portion of the savings from a rescission of spending or repeal of a targeted tax benefit to a Deficit Reduction Account so the savings could not be spent elsewhere.
- ▶ H.R. 4600 provides the expanded rescission authority for a period of only three days after enactment of an appropriations bill. Our amendment would allow the president to use the

enhanced rescission authority at any time after enactment or during the fiscal year to which the appropriations bill applies.

For these reasons, we believe our amendment would significantly improve the base rescission measure to be considered by the House.

TITLE IV: CONTROLLING "EMERGENCIES": Limiting Each Bill to Only One Emergency

A typical way to spend money on items that would have difficulty passing on their own merits is to tie them to "emergency" appropriations bills, which have a virtual guarantee of passage. This approach became more popular under the Budget Enforcement Act, which exempts emergencies from the caps on discretionary spending.⁶

The recent earthquake relief bill demonstrates how an emergency spending measure can grow. In February, the President's request for \$6.2 billion in Budget Authority for the victims of the California earthquake grew to more than \$11 billion, as Congress added funds for everything from the design of a new Amtrak station to copies of White House electronic-mail. (Please see the time line of the earthquake bill at the end of this testimony.)

Equally significant is the question of the non-emergency items that are loaded onto emergency spending bills. Frequently, these are items that would not survive the legislative process on their own merits. They are therefore incorporated into emergency bills that have a strong potential of passing. Thus, items that certainly are not emergencies become parasites on emergency spending bills. Since 1990, approximately 14 percent of the gross spending in emergency appropriations bills — \$13 billion of the total \$97 billion in these measures — has been for non-emergency items. Below is a sampling of such items from recent emergency spending bills.

Earthquake Emergency Supplemental, 1994: H.R. 3759, P.L. 103-211 (selected non-emergency items)

Hire 500 employees for a fingerprint laboratory	\$20 million
Fight potato fungus in Maine	\$1.4 million
Pay raises at Food and Drug Administration	\$2.3 million
Continuing study on measuring unemployment	\$10.1 million
Employee-Management Relations at the Office of the Senate Legal Counsel	\$1 million
New Amtrak station in New York City	\$10 million
Travel for the Office of the U.S. Trade Representative for trade negotiations	\$550,000
New employees at the Council on Environmental Quality	\$300,000
NASA payroll increases	\$56 million
"Spacehab" module	\$40 million

Hurricanes Iniki and Andrew, Typhoon Omar, Desert Storm Emergency Supplemental, 1992: H.R. 5620, P.L. 102-368 (selected non-emergency items)

Veterans Health Administration - medical care	\$8.7 billion
Veterans Benefits Administration - compensation and pensions	\$500 million
Department of the Treasury, salaries and expenses	\$320,000
BATF salaries and expenses	\$2 million
U.S. Mint salaries and expenses	\$270,000
Bureau of the Public Debt systems modernization	\$5.2 million

Dire Emergency Supplemental - Desert Storm, Veterans' Benefits, Unemployment, Student Financial Assistance: H.R. 1281, P.L. 102-27 (selected non-emergency items)

D.C. financial crisis	\$100 million
Atomic energy defense activities	\$623 million
Delaware River Basin Commission salaries and expenses	\$39,000
Vaccine injury compensation	\$17 million
Supplemental security income program	\$232 million
Food Safety and Inspection Service	\$8 million
Food Stamp program	\$200 million
Coast Guard retired pay	\$14.5 million
Veterans Benefits Administration, compensation and pensions	\$712.6 million
Operation of low-income housing projects	\$75 million

Finally, Congress often combines a variety of emergencies into a single bill. For example, the 1994 earthquake supplemental actually contained funds for nine different emergencies: the Los Angeles earthquake, the Loma Prieta earthquake, the California forest fires, the midwest floods, and emergency aid to Somalia, Bosnia, Iraq, Haiti, and Southwest Asia. This practice swells spending amounts in emergency bills but dilutes the significance of events that justify such special appropriations measures. On average, the emergency supplementals enacted since 1991 have contained 4.4 emergencies each. (See listing on the next page.)

Clearly, the number of emergencies that may be included in a single emergency spending bill, as well as the non-emergency items that get attached to such legislation, reduce the clarity and accountability that should accompany such measures. To address these issues, the Common Cents Budget Reform Act would:

- ▶ Expedite Congressional action on genuine emergencies by stripping out all non-emergency items from "emergency" spending bills.
 - ▶ Compel the Congress to consider each emergency on its own merits in a separate bill.
-

Number of Emergencies In Each Emergency Supplemental

Los Angeles Earthquake Supplemental, 1994	9
Midwest Flood Relief, 1993	2
Hurricane and Typhoon Supplemental Appropriation, 1993	3
Hurricane, Typhoon Supplemental, 1992	11
Los Angeles Riots Supplemental, 1992	3
SBA Disaster Loans Supplemental, 1992	1
Desert Shield/Desert Storm and Kurd Assistance, 1992	6
Refugee Assistance Resulting from the Persian Gulf War, 1991	4
Desert Shield/Desert Storm, 1991	1
Unemployment Compensation, 1991	4
Average Number of Emergencies In Each Supplemental	4.4

CONCLUSION

In conclusion, we reiterate a fundamental point made at the beginning of this testimony: Reforming the budget process is not the entire answer for controlling federal spending and deficits. Congressional resolve is an indispensable element. The budget process can, however, encourage or discourage responsible budgeting and accountability. As it turns out, those procedures that meet the test of common sense are likely also to provide the incentives that Congress needs. Further, a more reasonable, common sense budget process could help alleviate some of the cynicism among American taxpayers, who are growing increasingly frustrated with Congress's chronic failure to handle the public's money properly.

For these reasons, we strongly urge the subcommittee and the full Government Operations Committee to act quickly on our proposed budget process reform. We encourage you to allow the full House an opportunity to bring "common sense" into the federal budget process.

Endnotes

1. As defined in the Balanced Budget and Emergency Deficit Control Act of 1985, the baseline includes "a projection of current-year levels . . . into the budget year and the outyears *based on laws enacted through the applicable date* [emphasis added]. In other words, changes in law that call for higher spending in the forthcoming budget year are assumed in the baseline. Legislated changes are more significant in the baselines for mandatory programs, but they do apply to the baselines for discretionary programs.
2. Schick, Allen, *The Capacity to Budget* (Washington, D.C.: The Urban Institute, 1990), p. 96. This example reflects a mandatory spending program, but the same principles would apply to discretionary programs.
3. Schick, Allen, *Congress and Money: Budgeting, Spending and Taxing* (Washington, D.C.: The Urban Institute, 1980), pp. 217-218.
4. Wildavsky, Aaron, testimony to the House Committee on the Budget, May 11, 1992.
5. Havemann, Joel, *Congress and the Budget* (Bloomington, Indiana: Indiana University Press, 1978), pp. 176-177.
6. As defined in Section 251 of the Deficit Control Act, adjustments to discretionary spending limits are to be made for spending provisions "that the President designates as emergency requirements and that the Congress so designates in statute."

Taxpayer Aftershocks of the 1994 Los Angeles Earthquake Bill (H.R. 3759)

Late January	February 1	February 1-3	February 3	February 8	February 9-10	February 11
The Administration requests \$6.2 billion plus \$559 million in loans for the California earthquake and proposes the funds be treated as emergency spending.	The Administration requests an additional \$1.6 billion and \$550 million in loans for earthquake relief, plus \$1.2 billion for defense (urged by House defense appropriators), \$435.5 million for miscellaneous disaster-relief and \$315 million for the Loma Prieta earthquake.	Representative Natcher reintroduces the bill (originally introduced January 26 as H.R. 3735) which is approved by the Appropriations Committee the same day after failed attempts to aid victims of previous disasters.	Representatives Frank and Burton unsuccessfully attempt to exclude defense spending from the bill. The House passes a \$9.72 billion package with \$1.109 billion in loans. The \$2.56 billion in rescissions ultimately agreed to is proposed by the Democrat leadership (originally H.R. 3400).	The Senate Appropriations Committee proposes additional rescissions and \$1 billion* in non-emergency spending as requested by the Administration in FY 1995 budget that was released the previous day. However, the committee refuses to include \$670 million for U.N. peacekeeping. The Appropriations package r equists \$11.06 billion (including \$1.04 billion in non-emergency funds), \$1.109 billion in loans, and \$3.4 billion in cuts.	The Senate defers numerous proposals to cut spending, including recommendations to save \$94 billion over five years and limiting the bill to only earthquake, flood and other disaster relief. On February 10, the Senate maintains the funds suggested by the Appropriations Committee.	The conferees agree to reduce the rescissions in defense and, thus, propose only \$3.25 billion in rescissions. The agreement retains the Senate passed funding levels, and both the House and Senate pass the bill.

* This includes \$1.4 million to fight potato fungus in Maine, \$2.3 million for Food and Drug Administration pay raises, \$13.1 million for construction and \$1.3 million for land acquisition and state assistance for the National Park Service, \$12.4 million for the Bureau of Indian Affairs for construction, \$61.4 million for anticipated unemployment and job-training, \$10.1 million for continuing study on measuring unemployment, \$1 million for the Office of Senate Legal Counsel for Employee-Management Relations, \$10 million for a new Amtrak station in New York City, \$550,000 for travel during trade negotiations for the Office of the U.S. Trade Representative, \$13.1 million to copy White House electronic messages for the public, \$300,000 for new employees at the Council on Environmental Quality, \$698 million for disability and pension benefits and \$103.2 million for higher readjustment benefits for Veterans, and \$56 million for NASA payroll increases. The Senate added its own proposals to the Administration's FY 1995 supplemental request, including \$20 million to hire 500 employees for a fingerprint laboratory, \$40 million for the "spec-hab" module on the space shuttle, and allowing \$1.3 million in previously appropriated funds for Hawaiian sugar mills to be used for community-based and employee-support organizations along the Hamakua Coast.

Mr. CONYERS. Today we have a great number of budget reform bills before us. Thank you all very much. We have got H.R. 3266, A to Z. We have got your bill, 4434. We have 1138, the Comprehensive Budget Process Reform Act, introduced by Representative Orton. We have H.R. 4057, the Lockbox Act; we have H.R. 2929, introduced the gentleman from California, Mr. Cox and we have two proposals that treat emergency spending.

And actually, we started off with Mr. Kasich talking about emergency spending. I suppose most of the features in the two emergency bills we will consider later would meet with your approval.

Mr. KASICH. I don't know anything about the other bills.

Mr. CONYERS. I see. It seems you made a pretty good case for the provisions in your bill.

Mr. KASICH. I am glad that you felt as though I made a pretty good case, Mr. Chairman.

Mr. CONYERS. I thought you made an excellent case.

Mr. STENHOLM. Mr. Chairman, may I respond in part to that?

There was a fourth part to our package that we didn't talk to, but it was the modified line item veto proposal. And I think if you will read here carefully what the three of us is suggesting. If someone else has some other ideas that differ from us, we think they ought to be voted on. We think if someone has a little different version, if it is something that can be determined by a majority vote of the House of Representatives of whose idea is better, then we ought to construct a rule and we ought to construct a process that would allow different ideas to be considered.

That is what we achieved, and I am very happy with the rule that came out of the Rules Committee yesterday on the modified line item veto because it managed to do something that I have not seen happen many times in the last several years. We had one in which Chairman Moakley and the ranking minority Member, Mr. Solomon, both agreed.

And it also made those of us who had a little different version from either one of the two ranking Members, we were happy, too, because the process allows the will of the House to work and if we don't have a majority for the proposal that we have submitted, then the ones that have the majority will win. And I hope, Mr. Chairman, that that is the way you will look at all of the ideas before the committee and make the recommendations accordingly.

Mr. CONYERS. Well, as I remember, we worked pretty closely on rescission legislation and came up with some modified package that met the general mood of the Congress. So the Common Cents Reform Act includes baseline budget reform, expedited rescission, discretionary cap adjustments, limitation of emergency designation, and modified line item veto as its essential ingredients. What I want to do is continue with other witnesses, not only our colleagues, and I invite you to keep involved in this process. We would be happy to notice you of the hearings as we proceed. Because we will be having witnesses examining all of these, and we would look forward and be happy to know of witnesses that you would like to include so that there is a fully balanced view of these issues.

These are all important issues I think critical that we have a hearing constructed so it is not just a rambling discourse by person after person on a whole range of budget reform matters but that

we specifically are talking about these issues in terms of a bill context; what it would look like coming out of one measure.

So, I think that this gives us a pretty clear picture of where you are coming from. I have got a couple of more questions but I want to recognize Al McCandless at this time.

Thank you very much for your very orderly presentation.

Mr. MCCANDLESS. Thank you, Mr. Chairman.

I liken this discussion as a preacher talking to the choir and I am not sure who is the preacher and who is the choir here.

We touched on a situation, Mr. Penny did, relative to success that we have had in the past and we were not able to experience through the legislative process, and the two examples used were the revision of the Social Security program in 1983, and the base closing. Both very touchy and sensitive political issues. We have a number of bills here that are admirable. We also have currently in chairmanship people who do not seem to think that there is an awful lot wrong with the system or if there is something wrong with the system, that they will work it out or however you wish to analyze and review their testimony.

With that in mind, then, is there a place for a similar type of committee to that of a Social Security and the base closing as the next step to try to put the budgetary process on track?

Is that fertile ground?

Mr. KASICH. Well, there have been a couple of other commission-type proposals that have been offered. I am a cosponsor on two of them. Helped write two of them. One is Connie Mack-Kasich proposal that says that we should reach certain targets similar to the Gramm-Rudman proposal.

The other one I have done with Byron Dorgan that would call for a base closing-type commission, that would allow a commission to review everything else in the Federal Government that is not defense related for purposes of being able to close facilities that, frankly, don't have any purpose anymore.

Mr. MCCANDLESS. Let me interrupt you, Mr. Kasich. What I am talking about here is not an active committee in the sense as you are explaining it to me, but a committee that would develop a budget procedure separate from what actually makes up the budget itself, in terms of nuts and bolts, a procedural activity that would say—and again you would have people who would be respected in the system develop this budget procedure.

And then it would come to Congress, and it would not deal with specifics like base closings or something of that nature. I use those as examples of how we have been successful following this procedure on two other occasions that have been mentioned today.

Or if this is not fertile ground, that is fine.

Mr. PENNY. The chairman mentioned a number of bills and they are very admirable. I have no problem with them, but there is a certain—you are not going to be able to get all of this in this one, so maybe we will have that amended out and that may have been a very desirable characteristic of that bill and then we go to the next bill and this bill would happen here; so we don't come up with a cohesive ultimate budget plan from beginning to end through a number of steps that Congress would benefit and certainly the people that look to Congress to spend their money.

Mr. PENNY. Clearly, the preferred path would be for this committee to report a comprehensive budget process reform bill. Then we could bring it to the floor under a rule that would allow various amendments or substitutes to be debated. At end of the process I trust that we would have reforms that would make a difference.

We are trying to change the budget environment. That is really what this is all about. And frankly, any one of the bills you have described would offer a positive change from the status quo. We would like to see this committee take action on a bill that is as far-reaching as possible.

You know there was some suggestion about an outside group to look at budget reform and somehow that got rolled into this congressional reform panel. We decided to keep it all in-house rather than allowing former Members of Congress or whoever to be a part of a group that would make these recommendations.

Now we see that the reform commission's report has been sitting at the Rules Committee for the last 8, 9 months. And they are not anxious to bring it to the floor. Mostly because when it comes to floor, they are afraid of amendments that might be offered and might, in fact, pass. It is feared these amendments would go farther in the area of budget reform or the elimination of committees or the consolidation of jurisdictions within committees. And so, we are being frustrated here by—

Mr. McCANDLESS. If I may, you are making my point.

Mr. PENNY. The point I wanted to make is that initially, what got this whole internal reform commission set in motion was a very credible suggestion by some legislators that we create an outside commission with retired Members of Congress, and this internal process was instituted as a way of preempting that. So now we are sort of back to square one, but we do have some good bills that have been introduced. We have got a committee chairman here who has taken some interest in these issues over the years.

He deserved a lot of credit for pushing the chief financial officer through the Congress. It is going to save us a lot of money and that is doing in the executive sector, the executive department, much of what we want to do on Capitol Hill. That is to bring some common sense to the way we do budgets.

Mr. CONYERS. If the gentleman would yield, I would like to observe that all three of the gentlemen supported the Chief Financial Officer Act, as well, and we appreciate your support for that.

Mr. KASICH. I would like to say to the gentleman from California, listening to the testimony of the last panel, I got the sense that—it is this one but let's do the next one and if we are doing the next one, let's wait and do something else. I think the common sense budget plan that you have before you right now will change the language in the way we operate. Just the language on baseline is so significant. I have got a list of about 10 items that add up to \$17 billion in spending increases that is actually labeled on \$11 billion spending cut.

It is the inability to actually speak in a language that we can all understand. I argue that the administration ought to support the baseline changes because if, in fact, they are interested in controlling the deficit over the long term, then it makes their job easier

to say that a cut is a cut and an increase is an increase and a freeze is a freeze.

I think if you cut an appropriation bill, the money should be able to go to the deficit. It doesn't lock in appropriators on this side from being able to go to a conference committee and work out the differences between the lower level and the higher level. All it says is if in the middle of doing a budget, we decide that we want to cut spending more, we ought to be able to do it.

Every one of these appropriation bills that we are going to consider over the rest of this year, not one dime in it will go for deficit reduction, even if we eliminate the Interstate Commerce Commission and not a dime of it goes for deficit reduction. These emergencies are ridiculous when you read in the paper about them.

Let's pass this now. It is June. It is almost July. This is a bill that has a chance of passing this House. Our enhanced rescission proposal that came out of Rules Committee yesterday, we believe will pass the House of Representatives. We think we can pass it through the Senate.

And where I get concerned about Mr. McCandless is we are always waiting on another vehicle. This is a good down payment on what I think can make a difference.

I know serving on that Budget Committee, defining an increase as an increase and not an increase as a cut would be the most significant sea change in the way in which we describe budgets that we have had in the 10 years that I have been here.

Mr. MCCANDLESS. The problem I have, Mr. Kasich, is the road of good intentions as far as the budget process is concerned is littered. And I am afraid that we are just going to continue to litter it with another Gramm-Rudman or other this or another that. I am not saying we shouldn't do what we can with the resources that we have.

I was very impressed to use another example. I was impressed with the Peter Grace Commission. I thought the 326 recommendations—not all of them I would have accepted, but there were a goodly number that were excellent that seem to have fallen by the wayside. I think we got 22 of them through today. I may be off one or two.

But that is a failure, but the other two that I mentioned, base closure and Social Security, were a success because we took the political climate and divorced it from the decisionmaking process and the decisionmaking process had the necessary integrity and personalities of respect that, when it came back, nobody wanted to mess with it. And that is why I mentioned it to you gentlemen as I did.

Thank you, Mr. Chairman. Thank you, gentlemen.

Mr. CONYERS. Mr. Spratt.

Mr. SPRATT. John Kasich, let me take up the topic that you addressed at the outset, emergency spending. Is what you are proposing; a stricter germaneness rule so that emergency relief bills, particularly disaster relief bills pertain only to disasters? Or do you want some sort of procedure whereby every emergency bill denominated an emergency, exempted from the caps has to be subject to an open rule so the House can delete these extraneous things when and if it comes up? Do you have a legislative proposal?

Mr. KASICH. Yes, we do. See, one of the things that we have hoped to do was define what an emergency was in the bill. But what we have decided is that it is hard to define what you mean strictly by an emergency except that when you see an emergency and I see an emergency and the President sees an emergency and someone in the Senate does and we all agree on it, it is then an emergency.

But we can also agree on things that are clearly not an emergency.

So whenever the package comes up it has had to be one single emergency that has to apply to that. If it doesn't—

Mr. SPRATT. The rule mixes emergency and disaster relief together. You said to start with that the disaster relief bill on an earthquake can't pertain to something that is not an emergency. It could be an emergency. The financial insolvency of District of Columbia is an emergency. The potato fungus to a potato farmer is an emergency, but it is not a disaster relief provision.

Mr. Stenholm.

Mr. Penny.

Mr. STENHOLM. Yes. Basically what we are saying, call it what it is. It is very embarrassing and difficult to explain after you have passed an earthquake emergency disaster relief bill to find out the next day or two that you have had other things added to it. It is difficult to explain to the people why any of the things that were on Mr. Kasich's chart were, in fact, related to that. So what we are suggesting, whatever the procedure would be, keep it clean.

Mr. KASICH. Mr. Spratt, the specific answer to how you would prevent it from happening is if anything that is included in that bill was not directly related to that emergency, it would count against the caps. So if you had an emergency earthquake bill—

Mr. SPRATT. Let me give you an example.

The Hugo relief bill was passed by one House, I think, and then the earthquake occurred in California. And so the Appropriations Committee then piggybacked onto it the Los Angeles relief earthquake. So could you package those two together?

Mr. KASICH. No. That is a perfect example, and I will tell you why I say that.

When we passed the Los Angeles earthquake, we picked up money from a whole variety of other disasters that had happened that up until that point we had not defined as being an emergency. So the bill would have the impact of doing two things.

One, each emergency would be considered separately. If you got Hugo, we do Hugo separately; if you got San Francisco, you do San Francisco separately. Because when we had L.A., and we were taking a look at what the definition was, all of a sudden, San Francisco found itself in consideration of L.A.

Now, maybe it should have been in there, but perhaps some things were rolled in under the guise of an earthquake in San Francisco, because there was a convenient vehicle. And what I would argue is, keep them separate and consider them separately on their merits and don't let anything extraneous to it be considered.

Mr. PENNY. We also had a second installment on flood aid as part of the earthquake disaster bill, and under the definition that

we would place in the law would be that, from now on, each of those would have to be brought up as a separate bill. If it was an emergency bill, fine, but it would have to be a one-item or a one-topic bill; and any additional items would count against the spending caps.

Mr. KASICH. I can remember, Mr. Spratt, a discussion at the time of the Los Angeles earthquake bill about money that was going for the flood emergency. People came to me and said, by the way, I am from the section of the country where this is the case and if you are going to offset it, please don't offset the flood, even though the flood probably would never have come to the floor under a separate emergency.

Maybe it would have, but it got to be a matter of let's just get it all taken care of, and please don't ask me to be against that, because that applies to my district. I am not criticizing anybody for that. I am saying you get a neater, cleaner process if you consider them separately; and clearly we ought to take these extraneous matters out.

Mr. SPRATT. All right. So what you are saying in your legislation, what is the number of the bill?

Mr. KASICH. 4434.

Mr. SPRATT. It is common cents?

Mr. KASICH. Yes.

Mr. SPRATT. OK. What you are saying then is every disaster relief bill shall have but one disaster?

Mr. KASICH. Correct.

Mr. SPRATT. And no extraneous emergency money. If it is, it counts against the cap. You can't waive the cap as to anything that is extraneous or unrelated to that.

Mr. KASICH. Correct.

Mr. SPRATT. OK. What happens if the Rules Committee—what happens if you have a bill that has, I guess—then CBO is directed to score it and that is a waivable, nonwaivable aspect of it?

Mr. KASICH. OMB.

Mr. SPRATT. OMB is; OMB has to score it, OK. And that is—the Rules Committee can't rule?

Mr. KASICH. Nonwaivable.

Mr. SPRATT. OK. Nonwaivable.

Baselining. On baselining, you heard our colloquy before you came in. I think Charlie Stenholm was here. What you have got in here is the starting point for any deliberations in the Committee on the Budget on the current resolution shall be the estimated level of outlays for the current year and each function and subfunction.

We are talking about functions now and not about programs, projection or activities, but just about the 13 functions and subfunctions within them. Any increases or decreases in the budget for the next fiscal year shall be from such estimated levels.

As I was saying to Marty Sabo, it seems to me that this is mainly presentation.

Mr. KASICH. I wouldn't agree with that, Mr. Spratt.

We are saying that we will not anymore describe an increase as a cut. When you say it is just a presentation, it is really voluntary as to whether they each list the previous year's spending level. We

want them to list last year's spending level and judge the increase, decrease or freeze based on the previous year.

Mr. SPRATT. Yes, but what if they go on another step? They do exactly what you want, but they have the current services budget for the next fiscal year and they—we are underfunding current services by this amount. So to that extent, we have—

Mr. KASICH. Well, we define "baseline" though.

Mr. SPRATT. And the others speak to the other presentation.

Mr. KASICH. No. Because we define what the baseline is in our bill.

Mr. SPRATT. I know you do, but that doesn't prohibit somebody else from using a different point of reference.

Mr. KASICH. Well, but the problem would be, Mr. Spratt, when they come to the Budget Committee, they would no longer be saying that these are cuts, because when they say "cuts," they are talking about cuts from the baseline. That gives them the authority to do it. If we have now defined the baseline differently, they would be inaccurate in terms of coming and talking about this being a cut. It would not be a cut.

If we were to pass this, when Alice Rivlin would come before the Budget Committee next year and there was an increase in spending under this proposal, she would have to define it as an increase if it was one penny above the previous year's level.

Mr. PENNY. CBO would have to apply this newly defined baseline. So if someone wants to talk about current services or some other baseline, they can do that. But the official baseline for Capitol Hill and for CBO—and they are the God of budgets around here—would have to be essentially a freeze baseline or something that compares the coming year's spending levels with actual spending levels for the current year.

Mr. SPRATT. Suppose CBO did just what you wanted, but they also did a presentation of the budget comparing the current fiscal year and the next fiscal year according to current services, and also having a constant dollar budget, so that you have a constant dollar baseline. You get three presentations out of that.

Mr. PENNY. Who is going to instruct them to do that, the Budget Committee?

Mr. SPRATT. You don't prohibit them from doing that. You simply call for one presentation using the nominal dollar current-year baseline.

Mr. KASICH. But I would argue to the gentleman that the language of budget stems from the statutory language of what a baseline is. So when you change the statutory definition of a baseline, you automatically change the language.

Now, they can come in and speak in Portuguese if they want to, but we are demanding that they speak in English. So if you are suggesting that what we are doing is changing the language, the way in which we communicate, that is exactly right. We want the language changed.

Mr. SPRATT. No. What I am suggesting is that you can't change the language because of the first amendment and the fact that people will choose to argue the budget from their most advantageous point of view. If current services cuts have been made, then they

will go out and talk about current services. If real spending cuts have been made—

Mr. PENNY. Fine. But it shifts the burden of proof. They can talk about a current services cut if they want, but at least they are admitting that the cut is below a higher level of spending than is currently existing. So the burden of proof has been shifted. And for those that want to call a current services budget freeze, we now have the upper hand in the debate; again, it just shifts the burden of proof. You have hit on it exactly. We don't stop people from talking about some other baseline if they want to present their case in those terms. But we at least start with an official baseline that stays at a freeze level, a hard freeze level.

Mr. SPRATT. On the lockbox, you heard maybe our colloquy about whether or not this throws things into a state of confusion, that you have numbers in play all the time. And it is not quite clear until there is some final reconciliation at the end of the fiscal year just how low the spending levels are going to be for next year, because there are 13 bills and there might be amendments on each one that not only delete items but also lower the cap; and until that is finally resolved, you don't know exactly what the overall spending cap is. So you have the thing in a significant state of flux.

No. 1, you may not have been here, but I asked Martin Sabo and Dave Obey, as I read this, it doesn't say to me that the reduction in the spending cap is final until it is actually enacted. The reduction is still in play; is that correct? I can't put my fingers on the language from Schumer's bill, but is that your understanding?

Mr. STENHOLM. Yes.

Mr. SPRATT. So could the conferees from each of the subcommittees go to conference if, let's say, they have a \$1 billion cut in their bill which is allocated to the baseline, is it still open to negotiation with the Senate, whether it is \$1 billion or \$500 million?

Mr. KASICH. Mr. Spratt, the way it would work is that they would be free to negotiate between the two levels.

Mr. SPRATT. The level being the Senate—

Mr. KASICH. The Senate and the House levels. I mean, the conferees under the provision in the common cents budget; I know that—the Schumer-Crapo language, I think may be somewhat different. Under our proposal, it would just be negotiating between the two various levels.

Mr. SPRATT. But theirs speaks to being out of scope. So if the Senate is \$500, and we are \$1 billion, and if the subcommittee comes back with a conference report at \$100 million, then it is out of scope and subject to a point of order?

Mr. KASICH. That is correct.

Mr. SPRATT. But as long as they are within the range of \$500 million to \$1 billion, it is within scope.

Mr. KASICH. That is correct. Now, serving on the Armed Services Committee, I have got to tell you that when we got into a negotiation on the F-14, where we passed 10 and they passed 3; we ended up with 12. We would hope never to negotiate that way in the conference committee. You might remember those days.

Mr. SPRATT. Well, I think I have this straight. Those were the three or four points I wanted to—

Mr. KASICH. Can I offer one other point?

Mr. SPRATT. You have the spending cap in a state of flux, you have 13 bills in the mill at any given time. Granted, usually, let's say—it is easy to conceive of a situation where you would have six or seven different bills in conference at the same time—July, August, September—and we might have \$6 billion or \$7 billion of spending cap, plus or minus \$6 billion or \$7 billion that wouldn't be allocated, I guess, until you have done a 602(b) reallocation process on exactly where that \$6 billion goes.

Would the Appropriations Committee—let's assume that you succeeded; at the end of the fiscal year, the net reduction is \$5 billion?

Mr. PENNY. Yes.

Mr. SPRATT. Is that reallocated by the 602(b) allocation process with the cardinals, or is that taken out of each function?

Mr. PENNY. My understanding is that it would be reallocated, but it would be achieved function by function. In other words, anything below the cap would be negotiated within that committee alone. As the conference is closed on that committee, any savings there go into the lockbox. Then at the end of the process, the overall cap is lowered by the aggregate sum of the 13 bills.

And then the next year, the budget resolution is bound by the new spending caps, the allocations are made to the Appropriations Committee, they in turn suballocate, and we start all over again.

Mr. SPRATT. Yes. OK. Thank you very much.

Mr. CONYERS. You are welcome.

Mr. Stenholm, shouldn't we let our modified rescission work its way, as opposed to starting off with a new proposal? You have an expedited rescission section in 4434. But we worked out a modified rescission bill that has been reintroduced as H.R. 4600. And I think there is a considerable amount of support for that.

Would it be acceptable if the thrust of H.R. 4600 replaced the particular expedited rescission feature that is in H.R. 4434?

Mr. STENHOLM. No. You are correct, we have agreed on that, last year's perspective. What we have asked this year and has been approved in the Rules Committee to allow those of us who had a slightly different version to have an opportunity to vote upon it. If we have 218 votes, then I submit that that will be what we send on to the Senate; if we don't, then I would anticipate that 4600 or the base bill that has been introduced will be passed again in its current form.

We would like to improve on it because we believe that it can be improved on, and that is what the three of us are suggesting in an amendment that we will offer.

Mr. CONYERS. Now, there is no section in H.R. 4434 specifically on lockbox, between the approval of amendments to cut spending and an adjustment of the caps, we sort of get the same effect.

Mr. PENNY. Well, we have a section 2, which we call a cut is a cut; and it is just a different term to describe a lockbox. It basically has the same effect.

Mr. CONYERS. OK. So section 2, a cut is a cut, is really your version of the lockbox?

Mr. PENNY. Of the lockbox, that is right.

Mr. CONYERS. I thank you very much. You know, what I may do is call you back. You are at the top of the list of our witnesses today and some of these issues will be further developed as we go

along. It might be helpful if you come back, if you come back at a later time to talk about some more of these things.

Mr. PENNY. I think all of us would be happy to do that, and we wait on your call.

I think there is interest at this table in some of the other reforms that you are looking at; some of them are supplemental to what we have suggested in our legislation, and certainly nothing in our proposal is a substitute for the A-to-Z approach, which one of your committee members has championed. That can move forward as a freestanding effort, and these reforms are really designed to change our budget procedures and our budget definitions, and the two are not in conflict at all.

Mr. CONYERS. So if you saw A to Z and 4434, you would not—

Mr. PENNY. They would not be in conflict. You can do both.

Mr. CONYERS. That's my question.

Mr. PENNY. The two are not exclusive.

Mr. CONYERS. Good enough. Thank you very much, Mr. Kasich, Mr. Stenholm, Mr. Penny.

Mr. Durbin, why don't we wait until after the vote and come back then, so we won't get interrupted.

We will go now and stand in recess for just a few minutes. Thank you very much.

[Recess taken.]

Mr. CONYERS. The subcommittee will come to order. We are pleased to have as our next witness the Appropriations Subcommittee Chair, the Honorable Richard Durbin of Illinois.

We are delighted to have you here. You have been in and out of the committee room all day, and we invite you not only to make your own statement, but add any observations or comments about the discussions that have gone on in your presence. We would appreciate any views you may have about them as well, Richard. Welcome to the Government Operations Subcommittee.

STATEMENT OF HON. RICHARD J. DURBIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. DURBIN. Thanks, Mr. Chairman, and Mr. McCandless; I appreciate the opportunity to testify.

As I sat and listened to the close of testimony of the previous panel, I was reminded of how relieved I was when I finished my sentence on the Budget Committee and was released for time served, and thought I would never again have to deal with some of the arcane—important, but arcane aspects of budget policy.

But I come to you today—

Mr. CONYERS. But you were wrong.

Mr. DURBIN. I was wrong. I come to you today to address at least a few aspects of the proposed reform, perhaps from a little different perspective, though I understand Mr. Obey was here earlier, and he might have spoken to them, at least partially.

Let me say at the outset that we come here today because of a real difference in outlook and philosophy. Many Members believe that we can never cut enough spending. They reject the notion held by many economists that if spending cuts are too deep, they can contract the economy, kill jobs and dampen economic growth. They either opposed or refused to acknowledge the positive strides we

have made under the Clinton administration—reducing the deficit by 40 percent, 3 successive years of deficit reduction, the first time since Harry Truman.

And more important than this, in my estimation, from my personal point of view, is the fact that our economy is rebounding. We are seeing growth, the creation of new jobs, more jobs created in the last 18 months than in the previous 4 years.

Despite all of these good things, deficit reduction, economic growth, the folks who come to you with an agenda for budget reform have an appetite to cut that is at least nominally insatiable, and they continue to devise new ways to force spending cuts.

The bottom line is this: They don't trust government and they certainly don't trust Congress, so they search for new ways to restrict congressional activity, to reduce flexibility, to put Congress on automatic pilot. They can't bring themselves to concede that in congressional spending, our record was consistently better under the two previous Republican administrations than many people will acknowledge.

I should say the Democrats of Congress did more to reduce the deficit last year under President Clinton than any of our deficit hawks and heroes of the balanced budget amendment have achieved in the last 12 years, and most of them voted against it.

Now let me get down to a more practical level. When I first went to Chairman Whitten of the Appropriations Committee and asked him if I could be an Appropriations member assigned to the Budget Committee, his reaction was something I still recall today. Why do you want to do that, he said? He said, the Budget Committee deals in hallucinations, and the Appropriations Committee deals in fact.

I kind of chuckled, asked for the appointment, got it anyway.

But the longer I am around here, the more his wisdom shines through.

Let me give you a practical observation of deficit reduction from the viewpoint of someone who is forced to bring 1 of the 13 appropriation bills to the floor. Many of our deficit zealots call for major surgery on the deficit and faint at the sight of blood when they face appropriation cuts.

Let me be specific. This year I had to cut \$1.3 billion from discretionary spending in my agriculture appropriation bill. A Member of Congress who styles himself as a deficit hawk sent a letter out to all of our colleagues and said, vote against the Durbin appropriation, it cuts too much spending, it cuts too much spending.

When it was all said and done, it was interesting. I have here a list of Member requests to my subcommittee for earmarks in increases in spending in my bill, 1,119 letters from our colleagues. We put them in alphabetically. The list runs from A to Z, if you catch my drift; all of the Members who are deficit hawks when it comes to the press conferences and budget reform, and who were the first in line when it comes to earmarks and additional spending.

Now, let me tell you what happened when the bill came to the floor. Despite the Dear Colleagues sent out by my friend, we passed the bill. But 127 Members of our House voted against my appropriation bill, which cut—the net cut was \$1.3 billion out of the \$13 billion bill, real cuts, real deficit reduction. Of the 127 Members

who voted against final passage of the agriculture appropriations bill, a real cut bill, 120 are cosponsors of the A-to-Z bill. Seventy-eight voted to exempt the Veterans' Administration from cuts; 122 voted for the balanced budget amendment; 115 voted for Mr. Kasich's budget, which would have cut an additional \$8.9 billion out of agriculture programs over 5 years; and 119 voted for Mr. Kasich's motion to instruct conferees to accept the Senate spending caps, if you will recall the Exon-Grassley proposal, which cut us even deeper.

So excuse me if I come to this hearing with some skepticism about the fervor of some of the people who want to cut the deficit and can't bring themselves to vote for appropriations bills which really cut spending.

We come to the floor with only two exceptions this year, with virtually open rules. We all know that. That is why we have been bouncing back and forth between committee, office and the floor for the last week and even longer. So to be faulted and to hear the suggestion that this process isn't open for those who want to cut spending, I think that is just dead wrong.

Let me tell you what I think is wrong with the lockbox. But before I do it, I hope you all have a copy of Jack Murtha's testimony before this committee on this same subject.

Jack will not be able to join us today. Chairman Murtha has sent his testimony. It is in his style, very brief, very concise, very clear.

[The prepared statement of Mr. Murtha follows:]

TESTIMONY OF
HON. JOHN MURTHA
BEFORE
COMMITTEE ON GOVERNMENT OPERATIONS
JUNE 29, 1994

- I WOULD LIKE TO SPEND A FEW MINUTES TODAY TO TALK ABOUT WHAT I SEE AS THE REAL WORLD IMPACT OF THE PROPOSED "LOCKBOX" PROCESS ON THE DEFENSE APPROPRIATIONS BILL.

LOCKBOX WILL HAVE UNINTENDED CONSEQUENCES

- THE LOCKBOX CONCEPT WILL HAVE UNINTENDED CONSEQUENCES WHICH COULD END UP CREATING IMPOSSIBLE "GORDIAN KNOTS" IN WHICH APPROPRIATIONS CONFEREES FIND IT NEXT TO IMPOSSIBLE TO PRODUCE PASSABLE, SIGNABLE BILLS.
- I'M AFRAID WE WOULD BE LOCKING AWAY THE KEYS TO PRODUCING PASSABLE AND SIGNABLE APPROPRIATIONS BILLS IN THIS LOCKBOX.

- THE PROBLEM IS THE "LOCKBOX" LOCKS AWAY SAVINGS PREMATURELY
- BEFORE THE FINAL PRIORITIES ARE HAMMERED OUT. IT TAKES AWAY
THE FLEXIBILITY FOR THE CONFEREES TO WORK OUT ACCEPTABLE
COMPROMISES THAT CAN PASS.

EXAMPLE OF POTENTIAL LOCKBOX SCENARIO

- LET ME GIVE YOU A HYPOTHETICAL BUT VERY POSSIBLE SCENARIO
UNDER THE STENHOLM-PENNY-KASICH LOCKBOX PROPOSAL.
- LET'S SAY THE HOUSE VOTES FOR A FLOOR AMENDMENT NEXT YEAR TO
CUT \$2 BILLION FOR THE F-22 FIGHTER. THAT'S A REAL POSSIBILITY
GIVEN THE FACT THAT WE HAVE A \$20 TO \$40 BILLION SHORTFALL IN
THE PRESIDENT'S DEFENSE PLAN AND GIVEN THE SUPERIORITY OF THE
F-15'S THAT ARE CURRENTLY IN THE INVENTORY.
- THIS \$2 BILLION IS PUT IN THE LOCKBOX SO THAT IT CAN'T BE SPENT
IN A SENATE BILL OR BY THE CONFEREES.
- LET US THEN SAY THAT THE SENATE REJECTS THE HOUSE CUT BUT
INSTEAD CUTS \$2 BILLION FOR THE C-17 TRANSPORT AIRCRAFT. THIS
CUT WOULD BE VERY UNPOPULAR IN THE HOUSE.

- ALL OF THIS \$2 BILLION IS ALSO PLACED IN THE LOCKBOX.
- THAT MEANS THE CONFEREES HAVE LOST A TOTAL OF \$4 BILLION. THERE IS NO MONEY TO RESTORE EITHER ONE OF THESE PROGRAMS OR TO REACH A COMPROMISE ON REDUCED FUNDING.
- I COULD NOT AND WOULD NOT BRING BACK A BILL THAT GUTS OUR STRATEGIC MOBILITY AS ELIMINATING THE C-17 WOULD DO. STRATEGIC MOBILITY IS ONE OF OUR NATION'S HIGHEST DEFENSE PRIORITIES.
- THERE ARE SENATORS WHO FEEL JUST AS INTENSELY ABOUT THE F-22.
- THE PRESIDENT ALSO FEELS STRONGLY ABOUT THESE PROGRAMS.
- WHAT DO THE CONFEREES DO? ONE OPTION WOULD BE TO PRESERVE THESE CRITICAL DEFENSE PROGRAMS BY CUTTING OTHER WORTHWHILE PROGRAMS IN THE BILL THAT DO NOT CONTRIBUTE DIRECTLY TO NATIONAL SECURITY. THIS MEANS:
 - ELIMINATING ALL DRUG INTERDICTION FOR A SAVINGS OF \$875 MILLION.
 - ELIMINATING ALL ENVIRONMENTAL CLEAN-UP PROJECTS FOR A

SAVINGS OF \$1.88 BILLION.

- THAT WOULD GET US \$2.7 BILLION.
- IF WE THEN CUT THE DEFENSE CONVERSION PROGRAM BY NEARLY ONE-HALF WE COULD COME UP WITH THE REMAINDER.
- THE PROBLEM IS, OF COURSE, A CONFERENCE AGREEMENT ELIMINATING DRUG INTERDICTION, ENVIRONMENTAL CLEAN-UP, AND ONE-HALF OF DEFENSE CONVERSION WOULD NOT PASS AND PROBABLY WOULD FACE A VETO.
- OUR ONLY OTHER ALTERNATIVE WOULD BE SUCH DRASTIC STEPS AS REFUSING A PAY RAISE FOR OUR TROOPS AND CUTTING READINESS.
- THIS PROBLEM WOULD ONLY GET WORSE IN THE FOLLOWING YEARS WITH THE END RESULT BEING THE VERY REAL POSSIBILITY OF FORCING DEEPER AND POTENTIALLY DANGEROUS CUTS TO IMPORTANT NATIONAL SECURITY PROGRAMS..

LOCKBOX WILL CAUSE LOSS OF CONSISTENCY BETWEEN DEFENSE

AUTHORIZATION AND APPROPRIATIONS BILLS

- FURTHER COMPLICATING THIS SITUATION IS THE FACT THAT THE AUTHORIZATION BILL.WOULD NOT BE SUBJECT TO THE LOCKBOX.
- MR. CHAIRMAN, WHEN WE DEVELOP OUR DEFENSE APPROPRIATIONS BILL WE CONSIDER ACTIONS TAKEN IN THE AUTHORIZATION BILL VERY CLOSELY.
- JUST AS IN THE APPROPRIATIONS PROCESS, EVERY YEAR THERE ARE MAJOR AUTHORIZATION ISSUES THAT DON'T GET RESOLVED UNTIL CONFERENCE IS CONCLUDED.
- OUR SUBCOMMITTEE MARK UP TYPICALLY OCCURS AFTER ARMED SERVICES FULL COMMITTEE MARK UP.
- OUR FULL COMMITTEE MARK UP USUALLY OCCURS AFTER ARMED SERVICES ACTION.
- AT ALL OF THESE POINTS WE MANYTIMES MODIFY OUR BILL TO REFLECT CURRENT AUTHORIZATION ACTION. IT'S AN ONGOING AND CHANGING PROCESS THROUGHOUT.

- THE PROBLEM IS, UNDER A LOCKBOX PROCESS, IF A PROGRAM IS CUT OR TERMINATED IN THE APPROPRIATIONS BILL WE CAN'T GET THE MONEY BACK IF WE HAVE TO COMPROMISE ON THAT PROGRAM IN CONFERENCE.
- THE AUTHORIZATION COMMITTEE WILL HAVE NO SUCH CONSTRAINT.
- THE END RESULT IS MORE STRIFE AND CONFLICT BETWEEN OUR COMMITTEES BECAUSE WE WOULD BE OPERATING UNDER DIFFERENT RULES OF THE GAME AND HAVE WIDELY DIFFERENT RESULTS.

CONCLUSION

- MR. CHAIRMAN THE LOCKBOX IS A SOLUTION IN SEARCH OF A PROBLEM. THE CURRENT SYSTEM ALLOWS PLENTY OF OPPORTUNITY TO MAKE CUTS STICK IF THAT'S WHAT A MAJORITY OF MEMBERS WANT.
- THE LOCKBOX CREATES NEW PROBLEMS WHICH COULD RESULT IN LEGISLATIVE STALEMATE AND UNINTENDED NEGATIVE CONSEQUENCES FOR OUR NATIONAL DEFENSE.
- IT IS UNWISE AND UNNECESSARY. IT SHOULD NOT BE ADOPTED.
- THANK YOU FOR THIS OPPORTUNITY TO TESTIFY.

Mr. DURBIN. He talks about the real world impact of the proposed lockbox. Read it. Read it to try to get a perspective on what it really means and what it would mean if we have, in fact, a moving target on deficit reduction, which I think is a serious mistake.

Let me tell you a few things it would do in the practical world if we had the so-called lockbox. First, as a subcommittee chairman, I would use my entire 602(b) allocation. I would never come in lower, because honestly I am going to be penalized if I do. If I want to hold back some 602(b) authority on the possibility that an authorizing bill might be passed later on, I would be foolish.

Under the lockbox proposal, I am penalized, I lose it. Use it or lose it. Not that government—perhaps for some of these folks, it makes sense; it sure doesn't to me.

The thing that bothers me the most about lockbox and why I think it is closer to a loony bin than a lockbox is the fact that they have mixed up the concept of macroeconomics and microeconomics. The purpose of the budget resolution is to try to arrive at some general deficit reduction plan for the government, for the House and for the Senate. But if we are going to build into this an appropriation process which changes the caps with every vote, I would suggest to you this goes beyond a moving target. It becomes impossible to calculate at any given time where you stand.

Jack Murtha uses an example of two defense projects, one worth \$2 billion which dies in the House and reduces the cap; another defense project worth \$2 billion, a different project, dies in the Senate, \$2 billion, and reduces the cap. Now, how do they compromise that out in conference?

They have just lost \$4 billion from their cap. And yet they are supposed to resolve that in conference. I don't think it makes sense.

One of the things that bothers me, too, about this is that we really should have a meaningful debate on the budget resolution, reach an agreement on what that figure will be, and then go about our business. Anyone who wants to comment at a later date—1, 2, 10, or 20 times—to change that budget resolution to basically say, the will of the House is now changed, I think should come up with a super majority vote.

I don't believe after the initial budget resolution you ought to have a free shot at that cap any time you care to take it. And, unfortunately, that is part of the proposal on the various plans that are before us.

I talked about this life. Before I was elected to Congress, I spent 14 years as the parliamentarian of the Illinois State Senate, and so I usually think about these things in procedural terms, too. How is this going to work in the real world? How can this work on the floor in an orderly fashion? And I am at a loss, having spoken to the House Parliamentarian and looked at it myself, as to how this lockbox is going to work.

What if a Member came forward and said, I want to cut the money for the space station, and I would like to put part of it back into housing and the other part in the deficit reduction. Under the current rules, without a rule, it is virtually impossible. You are bouncing between titles of the bill and you are creating a lockbox for some other part of it. And as far as I am concerned, that is a

real serious and genuine procedural concern which we are all facing.

Let me also suggest to you that the lockbox provision creates a little different mindset for a chairman of an appropriations subcommittee. Why would I put money in a risky program, even if it is a good program? When I say "risky," I mean a program that might not survive on the floor. It doesn't make a lot of sense. I have to put money in popular programs.

So when Charlie Stenholm comes to me and wants money for boll weevil eradication, there are some southerners who really care about that, some folks in California, too. In fact, it is a very good program. But if I had to ask you whether that or an increase in WIC is likely to survive on the floor, well, the WIC program would. I would put the money in WIC first, if I stand the chance of losing it. Is that fair then to a program that may not have broad-based popularity, but still might be important?

In the agriculture sector, those programs abound. We have all sorts of programs. I understand that when it comes to rice production, there are only six States that have an interest in it. It is an important program, but if you are going to put it up for a vote on a majority basis, it might not survive.

So do I want to fund those sorts of programs that may not enjoy majority support on the floor, or go to those that are immensely popular and stick with them? Because if I guess wrong, I lose my cap. I can't take this to conference and bargain it up.

So let me conclude by saying this: I think there is need for honesty in our budget deficit reduction. I think there is need for honesty when it comes to dealing with appropriations. Having struggled over literally weeks, months, if you will, listening to witnesses, preparing a budget, coming to the floor; Mr. Spratt has the long-suffering responsibility to preside over my bill each year, and he knows what we go through.

It kind of bothers me to have folks come in and say, well, you really don't have an open process; we really need to bring some discipline in here. Folks, when I come to the floor, anybody can take a shot. It is an open rule. Anything you want to cut, come and get it.

This year, when we cut the heck out of this bill, a lot of the folks that are calling for deficit reduction were nowhere to be found on final passage.

[The prepared statement of Mr. Durbin follows:]

RICHARD J. DURBIN

20TH DISTRICT ILLINOIS

AT LARGE WHIP

COMMITTEE ON APPROPRIATIONS

SUBCOMMITTEE ON AGRICULTURE AND
RURAL DEVELOPMENT

SUBCOMMITTEE ON TRANSPORTATION

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TESTIMONY OF

THE HONORABLE RICHARD J. DURBIN

BEFORE THE

SUBCOMMITTEE ON LEGISLATION AND NATIONAL SECURITY
 COMMITTEE ON GOVERNMENT OPERATIONS

JUNE 29, 1994

Mr. Chairman, I thank you for the opportunity to testify today regarding proposed budget process reforms. I would like to focus my remarks on two issues: the proposed deficit reduction "lock box" concept and the proposal to place limits on emergency spending bills.

DEFICIT REDUCTION "LOCK BOX" PROPOSALS

Mr. Stenholm and other Members have offered various deficit reduction "lock box" proposals to encourage spending cuts. While I support responsible reductions in the Federal budget deficit, I believe these proposals are seriously flawed.

As I understand Mr. Stenholm's proposal, each appropriations bill would include a Deficit Reduction Account or "lock box". This account would start out at the difference between the subcommittee's 602(b) allocation and the amount of spending in the bill.

For any amendment to cut spending which is offered in the Appropriations subcommittee or full committee or on the House floor, the sponsor of the amendment could designate that some or all of the spending reduction be transferred to the Deficit Reduction Account.

While Members could offer amendments to increase the Deficit Reduction Account by cutting other spending, no amendment could be offered to decrease the Deficit Reduction Account. This means that Members could be prohibited from offering amendments later in a bill to spend savings gained by previous cutting amendments, no matter how worthy the cause.

The Senate would be required to accept the amount in the House-passed Deficit Reduction Account as its starting point for consideration of a House-passed bill. The Senate could increase the amount in the "lock box" but it could not decrease the amount, even if it disagreed with the spending priorities expressed by the House in the House-passed bill.

Furthermore, a change in House rules regarding consideration of conference reports would have the effect of prohibiting the House and Senate conferees from reaching a final conference agreement that includes a lower level for the "lock box" than the lower of the House and Senate levels.

Finally, when each appropriations bill is signed into law, the discretionary spending limit for new budget authority and outlays would be reduced by the amount in the Deficit Reduction Account of each bill, based on calculations made by the Director of the Office of Management and Budget.

What is wrong with this approach to appropriations bills? Plenty. Let's walk through the process and look at the implications of the "lock box" approach at each step of the process.

First, the initial level of the Deficit Reduction Account is the difference between the subcommittee's 602(b) allocation and the amount of spending in the bill. In other words, "use it or lose it." Appropriations subcommittees would be prevented from setting aside funds for potential use later (for example, if new authorizations were anticipated), because any money not spent in the initial version of the bill would go into the "lock box" and be unavailable thereafter.

Second, full and free debate over spending priorities in the Appropriations Committee would be inhibited. Since any spending cut could be put in the Deficit Reduction Account, committee chairs would be compelled to try to work out any differences with their members behind closed doors before marking up a bill, in order to reduce the risk of losing money to the "lock box" that the committee might feel could be better spent elsewhere.

Third, the debate on cutting amendments in committee and on the floor would be muddled by the mixing of two very different issues. Under today's rules, each year we decide how much we are prepared to spend in broad areas of the budget through the budget resolution. Once those broad decisions have been made and translated into 602(b) allocations for the 13 appropriations bills, we turn our attention to the question of priorities within each allocation. This two step process allows us to make an orderly decision about how much the Federal government should be spending in the coming year, and then make another set of orderly decisions about what our spending priorities should be within each of the budget allocations. These are two fundamentally different issues. One focuses on whether we should spend \$13 billion or \$14 billion on discretionary agriculture programs. The other focuses on whether, in spending only \$13 billion on discretionary agriculture programs, we should spend \$2.6 billion or \$2.8 billion on conservation programs.

The deficit reduction "lock box" concept would cause the debate to gyrate back and forth between these two very different issues. The debate would shift confusingly between how much deficit reduction should be achieved overall and how we should subdivide the allocation for a broad area such as agriculture so as to maximize the use of the limited Federal dollars available for that area of spending. This wholesale destruction of the lines between what are now distinct steps in the budget process would create confusion and chaos.

Fourth, this approach makes a mockery of the budget resolution. The budget resolution would never be final. It would continually be revisited and potentially opened to amendment every time an appropriations amendment was offered to cut spending.

Under the Stenholm proposal, the budget resolution would be debated in the House and Senate Budget Committees, on the House and Senate floors, and in the House-Senate conference, as it is today. Then it would be debated again in each of the 13 House Appropriations subcommittees, 13 times in the full House Appropriations Committee, 13 times on the House floor, 13 times in the Senate Appropriations subcommittees, 13 times in the full Senate Appropriations Committee, 13 times on the Senate floor, 13 times in conference committees, and possibly 13 more times on the House and Senate floors as the conference reports are considered. At each of these points, any amendment could reduce spending and increase the Deficit Reduction Amount with the eventual effect of amending the discretionary spending limits which are otherwise spelled out in the budget resolution and current budget laws.

This continual revisiting of the budget resolution is deficit reduction overkill. It suggests that deficit reduction is the only important issue we face. The premise behind this approach is that you can never cut spending enough. No matter what level of spending cap has been agreed to, you should be able to cut more at any time. But there comes a point where you need to look at other issues, including the question of spending priorities within accounts.

Amending a finalized budget resolution shouldn't be a simple matter requiring only a majority vote as proposed by "lock box" proponents. I think that, after a budget resolution conference agreement has been approved by both houses, any attempt to amend the budget resolution through an appropriations amendment should require a supermajority vote. In the absence of such a supermajority vote, the Congress should not be compelled to continually revisit the issue of discretionary spending caps to the detriment of other important responsibilities we have.

Fifth, the "lock box" approach would create a parliamentary morass that even the parliamentarians don't fully understand. Suppose you wanted to offer an amendment to cut spending in a particular account, transfer part of the savings to another account, and put the rest of the savings into the Deficit Reduction Account. How would you accomplish that under the rules of the House? The parliamentary tangle associated with potentially amending three difference sections of a bill at once should not be taken lightly.

Sixth, the "lock box" provisions could make it more difficult to reduce spending for some items by splitting opponents of a program into those who want to use the savings for deficit reduction and those who want to use the savings for other higher-priority programs. Major programs such as the Superconducting Super Collider or the Space Station could easily fall into this category and be unnecessarily sustained simply because Members disagree on where to put the savings.

Seventh, the "lock box" approach would have a serious impact on the ability of House and Senate conferees to reach agreement on final spending amounts for the year. Conferees need flexibility to reconcile what are often substantial differences between House and Senate bills. In addition to differences in spending for specific accounts, the conferees often have to deal with the fact that the House and Senate may have established different 602(b) allocations. The conferees must juggle the spending levels in different accounts and the overall allocation to reach an agreement. The "lock box" approach would add another level of complexity to the difficult task of negotiating a conference agreement by reducing flexibility to shift between spending accounts. In trying to increase the ability of members to cut spending, the "lock box" approach ties the hands of conferees.

Eighth, consider the psychology that the "lock box" provisions could impel a committee chair to adopt. What will a chairman do if every amendment he loses on the floor could reduce his allocation? "I could lose my allocation if a guess wrong," he may say, "so I'll play it safe. I'll put my funding in the most popular programs." Rather than allocating funds based on the substance of the programs and their relative priority, the fear of the "lock box" could encourage committee chairs to base their policy choices primarily on whether each line item can survive on the floor. Funding would flow to the safely popular programs, but not necessarily to the most meritorious programs.

If committee chairs adopted this approach -- and who could say they wouldn't at least consider it? -- we would actually achieve little deficit reduction. The programs that got funding would be the popular ones, but that change in emphasis wouldn't necessarily be in the best interest of the American people. The proposed change in process would have unintended consequences that would thwart the goals of the proposal.

This highlights the final and fundamental flaw of the "lock box" approach to legislating. It assumes that policy goals can be reached by tinkering with the process rather than by addressing the substantive issues head on.

If deficit reduction is needed, you don't need a new process to achieve it. It can already be achieved under the current budget process. In fact, that very thing happened this year. Discretionary spending caps were reduced. How? Through the budget resolution. We don't need a new process to achieve that goal. We don't need to drag the budget resolution into every spending bill. We don't need to muddle and warp the entire appropriations process to cut the deficit.

The "lock box" approach tries to use the guise of process reform to achieve a substantive, policy goal. I say, let's cut through the muddle and address the issue head-on. Let's debate overall spending where that issue belongs, in the budget resolution. Then let's let the appropriations process subdivide the pie -- whatever size of pie is approved in the budget resolution. But let's not confuse those two important steps with the illusion that process changes can achieve the policy goals we seek.

BUDGETING FOR EMERGENCIES

The subcommittee is considering several proposals on budgeting for disasters -- a proposal to limit emergency spending bills to one emergency, a proposal to create a budget reserve account for natural disasters and national security emergencies, and a proposal to reduce the following year's spending limits by the amount of any emergency spending not paid for in the current year.

Let me first comment on the proposal to limit emergency spending bills to one emergency.

While I appreciate the intent of this proposal, I believe its effect would be to unnecessarily and perhaps dangerously restrict the ability of the Congress and the nation to respond in times of emergency -- the very time when the ability to respond with flexibility is at a premium.

It is in the nature of emergencies that they often have unforeseen consequences, and Congress must sometimes revisit funding for old disasters.

Several examples come to mind. In the Northridge earthquake supplemental last January, provisions were added to cover requirements of the Midwest floods, which had been overlooked when that supplemental was enacted.

The supplemental appropriation for the Midwest floods last year included funding for several separate emergencies, including a drought in the Carolinas and separate floods in Kentucky and Ohio.

The funding for Hurricane Andrew and Typhoon Omar was added to a pending supplemental by the Senate. This supplemental was further expanded on the Senate floor to cover Hurricane Iniki when it struck.

It could be argued, of course, that the unmet needs of a previous emergency could still be funded under this proposal, but in a separate bill. However, it would force the Congress to consider a multitude of emergency spending bills, instead of just a few. It would make the Congress spend even more time on emergency bills, not less, and unnecessarily slow down the appropriations process.

I think that at the heart of the proposal to limit emergency spending bills to one emergency is a desire to make sure that non-emergency provisions are kept out of emergency bills.

However, I fail to see the benefit, for budgetary purposes, of doing that. For the purposes of the Balanced Budget Act of 1985, non-emergency provisions are already kept separate from emergency provisions in emergency spending bills. Under current law, discretionary spending limits are not adjusted for non-emergency provisions, even if they are included in an emergency spending bill.

Under current law, both the Congress and the President must agree that an emergency requirement exists for the appropriation to be exempt from the budget ceiling. If Congress initiates an emergency supplemental and the

President does not designate the funds as an emergency requirement, then the funds cannot be used. The same is true when the President requests an emergency supplemental. This procedure was agreed to by Congress and the Bush Administration as part of the Budget Summit Agreement in 1990.

In sum, the proposal to limit emergency spending bills to one emergency would tie the hands of Congress in emergencies, add to the workload of the Congress, and offer no benefits in return.

Let me next comment on the proposal to create a budget reserve account for natural disasters and national security emergencies.

It is an interesting idea. However, as it is currently proposed, it is fatally flawed. It ignores the possibility of a major disaster, which could not possibly be paid for from a rainy day fund, or without adjusting discretionary spending limits.

If Hurricane Andrew had hit downtown Miami, or if the Northridge Earthquake had been centered in Los Angeles, the cost of each of those emergencies could have reached \$100 billion. There is no way the Congress or the nation could respond to such an emergency if it had to rely on a rainy day fund and could not adjust discretionary spending limits.

And yet that is what this proposal would force us to do. It would force us to pay for emergencies from a budget reserve account, and it would simultaneously repeal the adjustment for emergency appropriations currently provided in the Balanced Budget Act of 1985. It is an interesting idea, but as it is currently proposed, it could have disastrous effects.

The same problem exists with the proposal to reduce the following year's spending limits by the amount of any emergency spending not paid for in the current year. This might work if the amount not paid for in the current year is a manageable amount, but it ignores the possibility (and some say the probability) that one day we may be struck by a major disaster costing \$100 billion or more.

Last February the House Leadership created a bi-partisan Task Force to look for ways to improve the way we prepare for, respond to, recover from, and pay for emergencies. The Task Force, which I co-chair with Bill Emerson, has met with the Congressional Budget Office, the General Accounting Office, the Congressional Research Service, the Administration's working groups on emergency issues, FEMA, and others. We are looking at every aspect of the way we handle emergencies, including budgeting.

The Task Force will meet with several more Federal, State and local agencies and organizations in the next few months, before reporting to the Congress with recommendations.

The Senate also has formed a bi-partisan Task Force, co-chaired by Senators Glenn and Bond, focusing on the question of how we pay for emergencies.

We need to address the question of how we pay for emergencies in a comprehensive way, and not with piecemeal provisions. I would urge that the bi-partisan Task Force on emergencies be given the opportunity to make its report to the Congress, before the Congress considers emergency budgeting proposals.

Mr. CONYERS. Thank you for a unique and important insight into the budget reform process, based not only on your career on the Budget Committee, but even more importantly, the real life view you have acquired as the appropriations subcommittee Chair; I am sure that many of your comments will be very well taken by others when they hear it.

Have you looked at any of the subjects of baseline budget reform? There is a lot of fixation about the baseline being more than a tool of analysis, but that it is actually distorting some of the budget picture by the way it is being used now.

Mr. DURBIN. You know, Mr. Chairman, I guess my problem with it is that since we have adopted the Clinton deficit reduction plan, I am stuck for the next 3 years—I am going to be stuck with a freeze; I will be cutting every single year—and to suggest that we will be able to hide or conceal our efforts behind some sort of baseline manipulation just doesn't work.

I mean, in the real world that I am dealing with, in terms of deficit reduction, this is an interesting academic argument, but totally irrelevant.

Mr. CONYERS. Tell us the magnitude of the cuts ahead, and what does it mean for the people in agriculture, the farmers and the farm interests in the country?

Mr. DURBIN. Let me give you three specific areas that we had to cut this year where we should not have cut spending.

Agriculture research: We spend \$1.1 billion in the Federal Government each year in agriculture research. It supports a sector of our economy that accounts for 17 percent of our gross domestic product. That is a very modest investment, and we are holding the line on it this year when we should be increasing it, increasing in areas like pink bollworm.

We have a group around here that calls themselves the "pork busters." And they get together with these taxpayer watchdog groups and like to giggle at the names of the projects. They hold press conferences each year and have this collective giggle, like pink bollworm research.

Little do they know that that is a cost-sharing plan with cotton growers that pulls in a 70 percent reduction in agriculture chemicals in California. And as we reduce the application of these chemicals, we reduce the problems associated with clean water and pollution and infiltration plants, not only in the countryside, but in the cities as well.

So they giggle their way through these. We are unfortunately unable to increase that spending as we should in agriculture research.

A second area which I will point to is the AHIS area, the Animal Health Inspection Safety program, again, an area that Mr. Stenholm would have been very qualified to testify about. Same idea, boll weevil eradication, fewer chemicals being applied. Soil and water conservation, we cut this year. That doesn't make sense. We are going to pay for that down the line.

But some people are of a mind that there just is no end to how much you should cut; just keep going, and we will never have to pay for it. It is a cynical and pessimistic view of government which I don't share.

Now, having said that, let me add, I have blown the whistle on a few things in the short time I have been chairman. Crop insurance reform is something that our subcommittee took on, saving \$70 million this year. We also went after the section 515 Farmers Home Administration housing program, which I think needs serious remodeling; and it is going to result in a savings for taxpayers.

There are areas where improvements can be made. But to start with the premise that all Federal spending is somehow suspect is just one I don't share.

Mr. CONYERS. Why are you sure that your appropriation figures are going to diminish in the years ahead? Is that built into the long-term Clinton plan?

Mr. DURBIN. It is. It is, because we will not see—we will be facing a freeze in spending, and yet, as you know, inflation will continue to chip away at the services that we are going to offer. If we are unable this year, for example, to come up with user fees which is now an escape clause when it comes to providing government services in the Food and Drug Administration, in the meat inspection business, if those things don't occur, we will have to cut even more this year. So I don't think it is going to get any better in the near term.

It is because this deficit reduction package is a real one. Some people won't concede that. I mean, if you listen to the previous panel, you would think nothing had happened over the last 2 years, that we are still in the old smoke-and-mirrors era where we made our projections on where the economy was going to go; and we said, we are going to cut, and we didn't want to cut, and the cut occurred the day after the fiscal year began.

We played all kinds of games in the old days. This administration hasn't done that. In fairness to them, and I think we should be fair, this is real deficit reduction.

Mr. CONYERS. Thank you very much, Mr. Durbin. I would like to recognize Al McCandless at this time.

Mr. MCCANDLESS. Thank you, Mr. Chairman.

Mr. Durbin, what I would like to do is talk about the system as you experience it as a subcommittee chairman. The concern that I and other members of this committee have as relates to that system and the way it functions.

Now, I admired your work on the Agricultural Subcommittee this year, because agriculture is an important part of my district.

But one of the things that was brought out by one of the panels is well, the waiving of the budget rules on the floor of the House really doesn't mean an awful lot, because you have to have an appropriation and if you don't have an authorization, you waive the budget rules, so you go ahead and appropriate and get all of the business done for the country.

I was somewhat troubled by that, because the authorizing committee is supposedly, allegedly, through its process and its hearings, the beginning point of how you arrive at programs and what you want to authorize. That then becomes a basis upon which the Appropriations Committee functions. Do you have any thoughts on that?

Mr. DURBIN. Well, let me tell you, Mr. McCandless. You and I have been here the same period of time and we have seen a lot of things happen on the floor.

I have brought this appropriation bill to the floor with virtually an open rule both times so that I am subjected to every point of order when it comes to violation of budget rules and the like. This time we made an exception because there were three or four programs in the bill, large-scale programs which were unauthorized, but colleagues on both sides of the aisle agreed that they should be protected.

I think the general rule of thumb is a good one, that you should not authorize on an appropriation bill. I attempted to do that, incidentally, by going to the Rules Committee this time and asking for special treatment in a given area and I was turned down.

I abided by the decision of the Rules Committee and took it from there. But as a general rule, we should have those clear lines drawn between authorizing and appropriating.

Let me tell you one of the problems I run into, though. The authorizing committees many times enjoy the luxury of promising everything to everybody. The farm bill historically includes wonderful programs, far beyond our financial reach, great ideas, and we continue to hear on the Appropriations Committee, why didn't you fund sustainable agriculture to the degree authorized?

We don't have the money. It is far easier to authorize to certain levels than it is to find the money under our strict budget process. That is why I am always mystified when I hear these deficit reduction plans coming around, they seem to think that we can manufacture the money.

We are really the last stop in the Appropriations Committee. There has to be real money, real 602(b) allocations, or we are out of business. So the authorizing committees sometimes are not restricted as we are when it comes to coming up with these ideas.

We have to pay for them.

Mr. MCCANDLESS. Let me read you a couple of quick quotes here from the report to Congress by the bipartisan commission on entitlement and tax reform. The report was released on June 21, and with reference to page 29 of Mr. Obey's comments dealing with the budget outlook through the year 2004: we all have constituents. We all have people asking us from the media, why did you do this, why didn't you do that, and the concern they have in all levels of expertise, in all levels of income, is we just don't think that you "the Congress," are getting a handle on this budget.

They use that general term budget to describe the whole appropriations, authorization, spending process, irrespective of whether it happens to be the legislative branch, the executive branch, or what. They think in terms of the budget and that is the hub upon which the wheel revolves.

Entitlement spending and interest are projected to exceed 70 percent of outlays by the year 2003. By 2030, Medicare, Medicaid, Social Security and Federal employee retirement programs will consume all Federal revenues.

Total Federal outlays would exceed 37 percent of the economy compared with outlays of 22 percent and revenues of 19 percent today, and then this is the big kicker.

If action is not taken, America will be forced to choose between doubling every Federal tax and cutting more than half of every Federal program and entitlement to balance the total Federal outlays and revenues.

Now, using that as kind of a beginning point, what would you suggest that the process do, meaning the budget process, the appropriation process, about going to the Budget Committee.

What should be done to address this issue to the maximum degree possible?

Mr. DURBIN. I think there are two levels we should address it from. Let me say at the outset that the entitlement area is one that I have to deal with, of a \$67 billion appropriation bill that I bring to the floor; \$13 billion is discretionary. So we are dealing with some \$54 billion in mandatory spending, which goes for food stamps, about \$25 billion, the Commodity Credit Corporation, which pays our farmers, and several other mandatory/entitlement programs.

The jurisdiction over those programs is in the authorizing committees. If there are savings to be made, they have to be made through reconciliation or some other action by the authorizing committee. I think it is a mistake not to address that because in many areas we can and should save in terms of entitlement spending.

A good example is food stamps. When the Food Stamp Administrator came before our subcommittee, my first question to him was, is there a more cost efficient way to feed hungry people in America. He was speechless.

No one had ever asked him that question, at least not in recent times, but I think there are positive answers to that that would involve electronic benefit transfer and a lot of different concepts which would feed hungry people in a more cost efficient way and take away some of the criticism of the program.

So in terms of getting to those entitlement programs, either through reconciliation or some other part of the process, we should be addressing them and addressing them more frequently.

I would concede that that is a reform that I would support.

The second thing, though, is to look at the underlying cause of some of these problems. As the Federal Government is bankrupt today, so too is my State government in Illinois; perhaps yours in California.

The root cause of it is medical care. If you look at the two or three areas where we are losing it, it is medical care and corrections, where we are just spending money hand over fist to build prisons and to keep people healthy, and frankly our States can't afford to keep up with it.

So when you get down to the fundamentals, health care reform, real health care reform is a critical part of addressing the very genuine concern which you just raised. If in the outyears we are going to be able to say we brought spending under control, we have to get to the fundamentals of some of the spending, and I think health care reform is one of those fundamentals.

Mr. McCANDLESS. Thank you.

Thank you, Mr. Chairman.

Mr. CONYERS. Mr. Bill Zeliff.

Mr. ZELIFF. Thank you, Mr. Chairman.

I just would like to point out, I voted against the final passage, but not because of the good things you did, but because of the things that weren't done; frankly, that we didn't go far enough. With all due respect, I applaud you for what you have done.

I have a great deal of respect for what you have done. But don't just look at those of us that care just because we didn't, you know, go ahead with your bill, don't feel that we are not on the same side. I just look at agricultural offices that remain open; I look at the overhead that we are spending in the Department of Agriculture; I look at large agricultural subsidies to large farms and then just—you know, I had my reasons for voting against final passage, but it certainly wasn't because I—I applauded the direction that you took and the work that you did, but I just didn't think we went far enough.

Mr. DURBIN. Mr. Zeliff, there wasn't a single Member who stood on the floor and said what you just said. There wasn't a single Member that got up and said I should have cut more.

One of your colleagues circulated a Dear Colleague letter to the rest of us and said it cut too much.

Let me tell you, this isn't an easy job. We are dealing with 130,000 employees in the U.S. Department of Agriculture. We have been closing down offices, closing down laboratories; we have been constricting programs, and we have tried to do it in a sensible way that will not in any way endanger the food and fiber production system in America.

A person like yourself who has an intense personal interest in reducing spending and in reducing the deficit should have been an aye vote on this bill. It should have been saying, we support what you have done in reducing discretionary spending by 10 percent in 1 year.

To hold off and say I couldn't do it because we expected more, I don't know if that is the real world.

Mr. ZELIFF. OK.

Well, your real world and mine may be, there may be an honest disagreement. I think I know where I am.

Let me just again leave on a positive basis, that I applaud the work that you are doing. I continue to hope that you will go further, and you know, I will certainly look for the opportunities to support that on a public basis as well.

I think my problem is that we have heard a lot of testimony this afternoon that basically looks at four of these charts, and I am sure you have seen them, but you know, we have got a situation where the debt trend line is parallel to—the interest trend line is parallel to the debt line, and frankly, if we took this to any banker, I don't think we could borrow money on it.

That is just maybe my business approach to things, but I don't like the trends and the directions. You, I think, are proud to say that we do the deficit reduction plan back in August, and—but I look at that and we are adding \$1 trillion to our debt over the next 5 years.

I look at the \$4.7 trillion debt that we have, with the increase that is projected, the interest that continues to move forward, and I just—I think we need some very serious changes in the system that we have been going in, and I think there are people like you

that are exceptions, but generally across the board, we need a heck of a lot more people that are willing to do the courageous cuts.

Mr. ZELIFF. On the Medicare—not on Medicare, but on the food stamp program, maybe you can elaborate a little bit on doing that electronic transfer, or going to a card; and what do you think about putting all of our entitlement programs under one kind of supervision in one department, one area where you have one card and one accountability?

Mr. DURBIN. I would be open to that suggestion. I am open to any suggestion in terms of modernizing the system. What we are trying to do with electronic benefits transfer is to get away from, first, printing the food stamp coupons which is a massive expense we shouldn't be able to afford.

Mr. ZELIFF. Isn't there a lot of fraud and abuse in the way it is distributed?

Mr. DURBIN. Sure.

Mr. ZELIFF. I am appalled by the question that you asked and the fact that they had no answers to it. That is part of our problem, isn't it?

Mr. DURBIN. In fairness, I think they have come a long way.

Mr. ZELIFF. But they have no idea how to streamline.

Mr. DURBIN. In fairness, they are working on electronic transfer now; what we want to get away from are folks that sell their food stamp coupons for cash. We want to make this a program that provides food for hungry people, and I think the electronic benefits transfer demonstration project in Maryland has been successful. It has been expanded to other States. It is a move in the right direction. I think those things are good steps forward.

Welfare reform is clearly going to address the bigger picture, as it should.

Can I go back to your earlier comment, though, talking about what a banker would say if he looks at those charts? America's banker just testified last week, Mr. Greenspan, before the Budget Committee. I have been listening to him, and what he had to say about the future of our economy was the most positive statement I can recall in the 12 years that I have served. He really took a look at the deficit reduction plan that we passed and said, the fundamentals are sound, we are headed in the right direction. I haven't heard that in a long, long time.

I will concede to you, our debt is large; it should be reduced. But going back to my statement, I think it is critically important for us to make certain that we have a growing, expanding economy creating jobs. That is even more important to me than reducing the deficit another billion dollars, and I think you can go too far. I think you can close down programs, and in closing them down, frankly, hurt the long-term growth of this country.

I will give you a practical example. If we are going to have real welfare reform, if we want to have a commitment within government to eliminate fraud in welfare, we will have to modernize computer capacity of the Federal Government. It may start with the U.S. Department of Agriculture, which is in the dark ages.

Mr. ZELIFF. That would be an excellent place to start, and the IRS is another one.

Mr. DURBIN. And we don't have the money for it this year. Because of deficit reduction, we don't have the money for Infoshare to put into modernizing computers. It is a perfect example of where just cutting spending overlooks the long-term impact in providing more cost-efficient programs for the taxpayer.

Mr. ZELIFF. I still say that when the guy that is running the food stamp program is completely shut out and has no answer to your question, I don't think we are even making progress in the right direction.

Mr. DURBIN. He is gone, incidentally. We have a new person.

Mr. ZELIFF. He should be gone, and probably a lot of people working with him that don't get it either.

But you also alluded to entitlements as the key, and entitlements driving the deficit. How do you feel about Mr. Gephardt's proposal for 2 days of entitlement votes?

Mr. DURBIN. I think it is a gimmick, just like A to Z with all due respect.

Mr. ZELIFF. You think our A to Z is a gimmick?

Mr. DURBIN. I sure do. After going through 11 weeks of hearings, 340 witnesses, including 37 Members of Congress, 7,000 pages of testimony to produce a bill, I don't think in 10 minutes to 60 minutes you can do justice to our program.

Mr. ZELIFF. Let me get you on Gephardt's. Why do you think his is a gimmick?

Mr. DURBIN. Because, honestly, we have a process to deal with it and, frankly, we are trying to come up with a trick shot now in an effort to satisfy some Members' needs. I think we have a process to deal with it, and I think the process should hold people accountable.

Just like my appropriations bill on the floor held people accountable, vote yes or no. Are you for deficit reduction or are you not? Some people said no, they are not for it.

Mr. ZELIFF. Let me just ask you. We had interesting testimony from Chairman Sabo, and you probably have a copy of it, but on his page, entitlement review, toward the end, he put down, "I should also point out that this year total entitlement spending came in below the target so there was no separate Presidential message on entitlements, no action required by the House." And I just found that kind of interesting.

Isn't that kind of where we are with entitlements and generally in the budget process itself?

You and other chairmen come in and say, you know, everything is going just fine. We have a process for that, you guys, you shouldn't be radical. It is going to be a three-ring circus. A to Z won't work. We don't want to do this. That is a gimmick; so is Gephardt a gimmick. Two days versus our 56 hours. You know, why don't you—I mean, why aren't you guys willing to try something different?

Because if we give you credit for doing a great job at \$4.7 trillion of debt, continuing adding more in the next 5 years, and we give you credit for keeping piling up the interest payments every year with no end in sight in balancing our budget, then I guess we should say—we should stand and applaud the process.

But you know, that is not working; and maybe you are an exception, and your committee, and you are doing a good job, but I don't think we have done a good job as Members of Congress, or you and your committee or anybody else.

Mr. DURBIN. Mr. Zeliff, you may have missed the earlier testimony, but the 127 Members that voted against my 10 percent reduction in the——

Mr. ZELIFF. It didn't go far enough.

Mr. DURBIN. 120 were cosponsors of your bill. You know, I just don't buy it.

Mr. ZELIFF. The guy you brought in for testimony, he was shocked when you asked him if he could deliver food stamps——

Mr. DURBIN. So you vote against deficit reduction?

Mr. ZELIFF. How about closing some of the agricultural offices that aren't needed in New Hampshire, as far as——

Mr. DURBIN. As a matter of fact, Secretary Espy and President Clinton are doing just that.

Mr. ZELIFF. Why isn't that part of your bill? Just because we didn't vote exactly——

Mr. DURBIN. This is an appropriation bill, remember? We don't authorize anything.

Mr. ZELIFF. I know. But just because we didn't vote for your bill doesn't mean we don't applaud part of what you are doing.

Mr. DURBIN. I would like to hear your applause with a green light.

Mr. ZELIFF. I told you I think that could be very possible next time.

Mr. DURBIN. I am looking forward to it.

Mr. ZELIFF. In the meantime, what is wrong with our effort to cut spending?

Mr. DURBIN. Let me just tell you this.

Mr. ZELIFF. What is wrong with our 56 hours, including entitlements, to put a special session that was promised back with Bob Kerrey in the Senate, with Tim Penny back in the House in August in order to get the economic plan passed? What is wrong with setting a time to take and review the process and cut spending and eliminate waste?

Mr. DURBIN. I think I just told you, but I will repeat it.

Eleven weeks of hearings on our appropriation bill; you know, it really does take time to sit down and go through these programs.

Mr. ZELIFF. So the process is working?

Mr. DURBIN. Well, I think it worked on my bill even though you didn't vote for it.

Mr. ZELIFF. So across the board, though, looking at the big picture, the process is working and all we have to do is be patient here?

Mr. DURBIN. Deficit reduction under the Clinton administration has worked a lot better than it has in recent memory.

Mr. ZELIFF. By raising taxes, we can solve the problem?

Mr. DURBIN. You may have disagreed on that, but frankly, it was interesting to me that the Kasich alternative would have cut even more in agricultural spending; and one of our colleagues on the Republican side said he couldn't vote for our bill because it cut too much. That is the kind of duplicity that bothers me.

Mr. ZELIFF. What I would like to do in proposing this is just explain to you what we are trying to do with A to Z, because you look like a guy with an open mind, and I respect your testimony and what you have done here, and I will close it out with this.

A to Z is a commitment to a process to have to cut spending, to have a special session, to put everything on the table, including entitlements, to do 56 hours of debate, to try to come up—Penny/Kasich was what, \$90 to \$95 million, we will try to do maybe \$100 million, to have everybody involved in the process, to kind of talk the talk and walk the walk and be held accountable.

We want to cut it in a responsible way. We think we can do it in a responsible way. It is a new idea, but I don't think that the old ideas are working that well and I think that all of us, you and I together, need to look to what can we do better, what can we do different to achieve the goals that really don't seem to be out there for us. They seem to be eluding us, and that is my point.

Mr. DURBIN. I am open to new ideas, but I don't think a C-SPAN telethon on deficit reduction is an answer to the deliberative process.

Mr. ZELIFF. Maybe—if you can't explain it in front of people, maybe you shouldn't do it.

Mr. DURBIN. If you can't explain a vote on your part that actually cut spending by saying that it didn't cut enough, that is little tough, too.

Mr. ZELIFF. I think if you were really honest about it, and we will leave it at this—the Agricultural Department is a huge area where we can do massive cuts; it is an area where we should have gone a lot further in almost every department.

I will leave it at this. When the guy that you asked the question that is running the food stamp program can't answer you on how to deliver the program on a much more efficient basis, then we are in serious trouble and it proves my point that we haven't gone far enough.

Thank you, Mr. Chairman.

Mr. CONYERS. Thank you very much.

John Spratt.

Mr. SPRATT. Dick, let me start first with a different topic, let you relax a bit on agriculture a minute.

You are also chairing a task force on emergency spending, disaster relief and how to pay for it on a current basis; and I think you were here when we had the testimony earlier, Kasich's testimony about legislation he is sponsoring that would confine emergency spending bills to a single emergency or a single disaster.

Having spent some weeks with your task force studying this, do you think that is a realistic, workable way to keep these bills relatively clean and straight?

Mr. DURBIN. I don't want to speak for the task force because we haven't really reached our conclusion yet, but I think that we should be very careful as to how we restrict our response to disasters. They come to us fast and furious many times. We are anxious to make sure that suffering people are taken care of in a hurry.

I would hate to see us build into the process rigidity, inflexibility. I don't think it makes sense.

Mr. Kasich, I did miss the testimony, but I understand from staff that Mr. Kasich made reference to the fiscal year 1994 emergency supplemental appropriation, noted the fact that there were not only several disasters included—L.A. earthquake, Somalia, Midwest floods and Loma Prieta—but then he went on to point out that there was some billion dollars in supplemental funds in that for the Veterans Administration, NASA and other things. I don't know that he made the point that there was also \$3.2 billion in rescissions in the same bill.

So although it was all characterized as emergency spending, the natural disaster part of it was treated differently than these other areas.

Now, I would agree that we or the Senate can go far afield in the name of emergency or disaster, but I would hate to see us tie our hands in terms of responding to real disasters. At the time when the Midwest was inundated with floods, ironically your part of the country was going through a terrible drought.

Mr. SPRATT. I will give you another example because hurricanes normally come in late August, early September to our part of the country, the eastern seaboard and Florida.

When Hugo hit Charleston, it came in with \$4 to \$5 billion of damage that was done; and it was right upon the close of the fiscal year. We had not adopted the appropriation bills at that point.

We had a continuing resolution, and FEMA had \$35 million in unused budget authority to cover bills that were about to be thrust upon it from the disaster in the wake of Hugo. And that has made me, in light of the fact we came up with \$4 billion quickly, sent to Hollings' office, then the Senate; it was tacked on the CR, and it went through and it was there. It made me feel morally obliged to vote for these disaster relief bills for other sections of the country because they did as much by South Carolina.

On the other hand, I rather cringe when I have to vote for them. There are extraneous things that have been tacked onto them. What if we just kept them clean and limited it to natural disasters?

Mr. DURBIN. I don't think that is unreasonable. I don't think that is unreasonable, but I would like to give us some latitude because I was troubled when the Midwest flood disaster program came around. After spending 10 or 11 years here as you have, voting time after time for disaster assistance all across the United States, when it finally hit in my back yard, we got ourselves involved in days of procedural debate over whether we were going to help these people who were literally losing their homes and businesses and farms. That is a little hard for me to take and a little hard to explain.

It was in my backyard. It could be in anybody's backyard tomorrow. I don't want to see us tied up into some procedural situation where it makes it more difficult to respond quickly.

I also think we ought to keep this in mind. We may be, unfortunately, reaching a point where this isn't this magnanimous—there isn't the magnanimity that we need among Members dealing with others' disasters. I hope we haven't reached that level of cynicism around here. But if you put natural disasters seriatim, bill by bill, there could be a time when you are not going to pass every single one of them for whatever given reason it might be.

I will use an example. We are arguing in our disaster task force as to whether a fire is a natural disaster. The L.A. riots, some say, should not have been treated as a natural disaster. If lightning had started the fire instead of an arsonist, the end result for the person who lost their home or business is the same. It is a disaster.

If we are going to get into some political argument as to what is really a disaster, I think that is really unfortunate. I would like to stick to natural disasters. I have no problem putting them together in a bill, perhaps taking other emergency spending out.

Mr. SPRATT. But in the interest of expedition, you think they should be lumped together?

Mr. DURBIN. Absolutely. Absolutely. We have got to be able to move and move quickly. You just can't sit and explain to people who are homeless, worried about where their next meal is coming forward, that Congress is involved in a very important procedural debate.

Mr. SPRATT. Let me ask you about baselining. I think you also heard some of that colloquy testimony.

In marking your bill, the agriculture appropriations bill, is it your custom to begin with the existing current fiscal year as your baseline, and measure your increases against that existing dollar baseline?

Mr. DURBIN. Yes, it is our subcommittee.

Mr. SPRATT. Do you also measure or have a current services budget that you use as a frame of reference?

Mr. DURBIN. Well, it is a frame of reference, but when we are dealing with this deficit reduction plan that we are in now, it is somewhat irrelevant. I mean, we really—we are cutting 90 different programs in my appropriation bill; 70 were cut from last year, 10 remain the same and the remainder were increased. So we haven't had the luxury of even considering a lot of increases in programs.

Mr. SPRATT. When you report it, don't you have the current fiscal year baseline?

Mr. DURBIN. Yes.

Mr. SPRATT. And the next fiscal year increase?

Mr. DURBIN. Current fiscal year baseline and the administration's request. Those are two things we operate off of.

Mr. SPRATT. So what we are talking about here is really—

Mr. DURBIN. Irrelevant.

Mr. SPRATT. Irrelevant because it is already done?

Mr. DURBIN. Absolutely.

Mr. SPRATT. I mean, it is relevant, but it is already done in a form that is sufficient for everybody.

Mr. DURBIN. That is, going back to Mr. Whitten, we are dealing with facts here. We have got a limited amount of money and a deficit reduction plan that is fairly specific.

Mr. SPRATT. As to entitlement cuts, I think I have presided over your bill 3 years in a row now, and it is always interesting to me what would be the consequence if someone wanted to cut that dollar number in your bill, which is the appropriated lump sum money for all the entitlement programs. Even though we don't actually reenact those entitlement programs as a formality, your bill contains

that sum of money to continue to fund all those underlying direct spending programs.

Mr. DURBIN. Well, I hope I am not misstating this, but I think, because the authority over the entitlement programs is in the authorizing committee, that even a cut at the mandatory level would not generate any kind of savings.

Mr. SPRATT. That is my understanding, too. It wouldn't have any impact. You still have the underlying—

Mr. DURBIN. As an example, Commodity Credit Corporation, which has moved from \$25 billion in 1 year to \$15 billion in another year, really has wild fluctuations because we can't predict the weather or prices. That is really the province of the farm bill and the Ag Committee, and they have got to sit down, if they are going to make—if we are going to have any savings in that, and make that in the way they construct the farm bill or through reconciliation.

Mr. SPRATT. Let me ask you this. You are talking about your discretionary money gets squeezed every year. Partly that is because defense and agriculture are the two programs that are losers in the allocation process money; we have got a flat sum of money for discretionary spending, and beneath that cap there are certain functions that will actually suffer losses over the next 3 to 4 fiscal years.

Do you think in this context it is realistic for us to ignore entitlements every year? I know there is a 5-year authorization bill for the farm program, but what happens is we end up amply funding deficiency payments, price supports, but squeezing the thing that underlies it all, and that is agriculture research. Is that realistic?

Is that good budget policy, or should we be looking on a more periodic basis at entitlements along with—you have got an \$80 billion—\$70 billion—\$80 billion program bill, and \$67 billion of it is beyond the appropriation process every year. As a consequence, to meet your totals, we are squeezing that \$13 every year.

Mr. DURBIN. Absolutely.

Mr. SPRATT. Is that good budgeting?

Mr. DURBIN. No. I think really we should be opening up these entitlement programs. We nominally do that through the reconciliation process, did it last year as part of this, but I think it is appropriate for us, as we have discussed earlier in food stamps or whatever the program might be, to take a look at it.

But how do you get to that, Mr. Spratt, when you are dealing with a Congress which comes in with such an overwhelming vote to exempt the Veterans Administration? I mean, many of the biggest deficit hawks couldn't get up there fast enough to vote yes to exempt the Veterans Administration. Why? We love them. These are men and women who served our country and sacrificed for us, and we don't want to go home and explain to them how we might be cutting the Veterans Administration and hospitals.

It is painful. It hurts. It is an entitlement. We are dealing with entitlements here. But that is the dilemma we face.

I voted no on that. I guess I will have to explain that to my vets group, but I didn't see how we could sit here and basically exclude one section of spending and say that they were beyond the pale when it came to deficit reduction. That, to me, I think reflects why

some of these things become difficult, whether it is Social Security, Medicare, Medicaid, veterans programs or foreign programs.

Mr. SPRATT. But getting to the point, though, do you not think that in light of the squeeze on discretionary, we ought to have an annual look at entitlements instead of a 5-year look at entitlements?

Mr. DURBIN. I don't know if you would want every program to come up every year, but I think as you suggested, some sort of regular schedule where those programs would come up for review and change would be appropriate.

Mr. SPRATT. And better, that it come in some sort of orderly context like the consideration of your bill than a special ad hoc procedure like A to Z?

Mr. DURBIN. I agree, and that is why I responded to Mr. Zeliff about the so-called Gephardt or Orton suggestion.

I am not opposed to looking at entitlements, but doing this thing in a breakneck fashion and let's get it done in 56 hours and move on, that isn't an orderly process. That will only lead to embarrassment as we get down the line and say we did something in haste. We are now paying for it; we have to go back and try to repair the damage.

If this truly is a deliberative body, let us take the time to deliberate and do it right.

Mr. SPRATT. Thank you very much for excellent testimony.

Mr. CONYERS. I concur, and we are in your debt, Richard Durbin. Thank you very much.

Mr. CONYERS. I am delighted to call our colleague from Utah, Representative Bill Orton; and from Georgia, Representative Nathan Deal to give testimony at this time. They played a major role in the discussion around budget reform.

We have your prepared testimony, and we will include it in the record in its entirety. Bill, why don't you begin?

STATEMENT OF HON. BILL ORTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF UTAH

Mr. ORTON. Thank you very much, Mr. Chairman. I really do appreciate the efforts and patience and ability of the members of this subcommittee to sit through this length of a hearing process on this issue.

I think we may be biting off a little more than we can chew in one hearing by looking at all of the process reform proposals—the lockbox issue, the elimination of baseline budgeting, the emergency spending. I mean, these are all very complex issues, which I recognize we are asking the committee to look at a great deal in a very short period of time.

You do have a copy of my prepared statement, which I will not read to you. I will save you from that.

I also—and I hear bells ringing so let me, in a very short period of time, try to give you a basic overview.

I have given to you also a copy of a proposed piece of legislation filed today as a bill with an overview of it that is meant to be considered as an alternative lockbox concept.

Mr. CONYERS. What is the number?

Mr. ORTON. It hasn't received a number, because we just filed it today and I don't know the number of the bill, but I have given you a copy of it, so it is here. You can review it.

Let me just very, very briefly tell you that the problem from where I see it is that we, as a deliberative body, tend to move from year to year without really deliberating on those tough policy issues, without really focusing on where we are setting priorities, without really raising a public policy debate about the priorities of the Nation and where we are going to get the revenue and where we are going to spend it. And so we see a great deal of frustration among the Members in this body, among the people in our country, because every year we borrow more money than we bring in.

We borrow, we spend, we are never able to explain to the people why we need more taxes, if we need more taxes. The people won't support it. And so we say, OK, we are not going to charge you taxes, we will give you something for nothing. We will continue all the entitlement programs, we will continue all of this spending and continue to deficit spend.

I think we all are realizing that will not work forever into the future, so the real question is, when are we going to establish some mechanism of debating public policy and establishing priorities? We attempted to do that in the 1990 budget resolution by setting spending caps. It was a very small step, only on discretionary spending, but it is working on discretionary spending.

Look at what is happening. We are forced to actually look at priorities. Now, there is a problem with this because still what we are doing is we start out at the very beginning and we set a cap. That is a fairly arbitrary cap based on some assumptions, assumptions of what went on last year, assumptions of what we think is going to happen in the next 5 years.

So we set those assumptions at the beginning of the Congress. We then vote on a cap on total spending. We then go into the appropriation process with 602(b) allocations and we tell the Appropriations Committee, now you decide how to divide up this pie. This is the total pie, you divide it up.

And then we come in, if we don't like how that pie was divided, and we say, no, let's not spend it here, let's spend it over there. We have votes, we have policy debate, we vote to cut programs, but in fact, it doesn't really reduce spending. It doesn't shrink the size of the pie. And that is the frustration that gives rise to the A to Z kind of approach saying, when you propose a cut, when you get a majority of the people in the body to cut it, let's cut spending.

Now, what we are looking at, with the lockbox concept, is essentially saying that when you cut spending in an appropriation bill, that lowers the budget cap. That would be very effective in lowering spending. I am a cosponsor of those proposals; I support them; I think we can do it through the appropriations process.

But as we have looked at that, there has been a great deal of opposition saying, wait, you are going to create a moving target. We have got to establish what the level is and so forth.

Then why not do it in the budget process? If we can't do it in the appropriation process, let's back up one step. Let's debate the policies, debate where we are going to spend and where we are not going to spend in the budget process itself.

So my proposal very simply says, in the budget that we debate, in the budget resolution, we will start with the President's proposal. The administration sends a budget. It is a line-item budget. We start with that. We will then in the Budget Committee set a—through the budget resolution, we will set caps, and we will send that to the full House with specific specification where it differs from the President's proposal. At that point, we will say to the body, now you debate this.

If the body chooses, with a majority of the full House to say, these assumptions that are the basis of our spending caps and our budget are incorrect, we don't want to assume that we are going to spend \$14 billion on supercollider or \$30 billion on the space station or whatever, we think that we ought not to assume that money will be spent. Therefore, we will lower the cap to begin with.

So if you focus the debate on priorities, focus the debate on functions, true, the budget will not itself set the exact items to be appropriated. We will set the caps, however, and in the discussion of where the caps ought to be, by looking to begin with at the President's budget, moving then to the—specifics that the floor says ought to be the priorities, we will set a cap.

We will have to agree in the resolution with the Senate. That process isn't changed.

We will come up with a budget resolution. The budget resolution will set a cap. That cap will be given to the appropriators who will then appropriate within that cap. If they believe that the whole House made the wrong decision, if they believe that the whole House didn't really know what they were talking about when they voted to cut this particular provision out of the budget, they can fund it anyway, and we can come back and vote again and say, no, we don't think that money ought to be spent in this area, but it doesn't change the cap at that point in time.

So very, very simply stated, what I am attempting to do is say, look at the concept of the lockbox, which is proposed in the appropriation process under the A-to-Z bill, under the Brewster/Schumer, et al., bill, under the Stenholm bill; all of that deals with the appropriation process.

I am saying you can do essentially the same thing in the budget process without doing great damage to our current budget and appropriation process, but you can get the whole body involved in helping to set policy and give recommendations to the appropriators so they know the mood of the whole Congress.

Now, the one last point, and then——

Mr. CONYERS. Well——

Mr. ORTON. I can do it in 10 seconds.

Mr. CONYERS. Well, we want you to come back anyway, and we know that Mr. Deal will rejoin us. So let's get the vote out of the way and then come back, because there will be some questions for you.

It is a very unique plan that you put in terms of going to the budget process instead of the appropriation process.

We will stand in recess.

[Recess taken.]

Mr. CONYERS. The subcommittee will come to order. We have our colleague from Georgia with us, and we would like him to begin the

discussion on panel No. 5, and we will pick up with Representative Orton when he gets here.

Welcome to the subcommittee. Thank you for your patience, and we will be delighted to hear from you at this time.

STATEMENT OF HON. NATHAN DEAL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF GEORGIA

Mr. DEAL. Thank you, Mr. Chairman. I want to express my appreciation to you and to your committee, first of all for holding these hearings, and to tell you that I have been impressed with your patience and with your generous attitude in undertaking this particular hearing.

I have listened, as you have, with interest to Members who are senior to me in this body, and I will depart from the prepared comments I have given to the committee to share with you a perspective that I bring with me; and I do that from who I am.

I am a freshman and I am a Democrat, and I would like to comment from those two perspectives as it relates to process reform in this body.

First of all, as a Democrat, I recognize that the 40 years or so of control of this House that our party has maintained does not allow us the luxury of being able to say that we are not in some way responsible for the deficit situation that we are faced with. We cannot avoid or evade a responsibility.

I listened with great interest to committee chairmen, especially the last subcommittee chairman, Mr. Durbin, and I sympathize with them. I understand the difficulty of their jobs, but I would say that as a Democrat and as one who advocates in this instance the consideration of the common cents proposals, that we should not question each other's party loyalty, nor should we question the motives of anyone who simply believes, as I do, that to level off with deficits of \$200 billion annually is simply not sufficient, that we can do better than that and that we should do better than that; and that as Democrats in control of this body, it is our responsibility to take the lead in achieving that end.

Second, as I said, I come as a freshman. I do not come out of novice. I come from a background of years of service in the State legislature, and I have wrestled with the same problems that I listened to these committee chairmen talk about. I wrestled with them as the presiding officer of a State senate when our State constitution mandated that we had to have a balanced budget. And when we had a budgetary shortfall, time to come in and do the unthinkable; that is, to deappropriate sums that you had promised to people that they were going to receive in their programs.

So I do that also from a background as a trial lawyer, and I understand, as a trial lawyer, difficult situations and I understand difficult procedures; and I understand that in this body we have difficult procedures.

But as a trial lawyer, I also know that when you come to the jury, you do away with those complicated procedures because your point is to convince them that your side is correct; and I think we now have come to that place in this body where we need to take away some of the mystique and some of the mystery and some of the complicated rules that we follow, which the public does not un-

derstand, especially when those rules do not translate into what they perceive we should be doing.

I realize, too, that the committee process shields us from difficult decisions and many times we privately are perhaps thankful that we have been shielded from having to make those difficult decisions; but I am convinced that we have come to a point in time of this body where we cannot be shielded from hard decisions any longer.

It is not right for us to expect committees to do that. We should not ask them to do that. We should be willing to come to grips with them.

In the part of the process that you have talked about, I share the concern that my colleague, Mr. Orton, shares. My primary concern is not so much with the discretionary spending, because I think we have done a much better job in that area than we have in the area of entitlements. I believe that our primary focus in process reform should not only be on those things that will address themselves to discretionary spending, but in particular, to the very difficult and troublesome area of how do we bring entitlement spending under control and how do we bring it down to realistic levels. Those are the difficult votes, that if we actually confront them, are going to be hard for either party to actually make those hard decisions.

So I share with you my perspective, and I do say that I am one who is committed to following through with the processes that we have begun, because I think it is for the good of the country that we do that. It is not a partisan issue. It is something that all of us as Americans and especially as elected representatives have to come to grips with; and I commend and applaud your committee for undertaking these hearings, and look forward to, hopefully, some progressive action coming forward from you as you consider these bills.

Mr. CONYERS. Well, thank you very much, Mr. Nathan Deal. It is a pleasure to hear from you and to know your background. That puts you in a unique position to help us thresh this out.

[The prepared statement of Mr. Deal follows:]

TESTIMONY OF CONGRESSMAN NATHAN DEAL
SUBCOMMITTEE ON LEGISLATION AND NATION SECURITY
HOUSE COMMITTEE ON GOVERNMENT OPERATIONS

HEARING ON BUDGET PROCESS REFORM
JUNE 29, 1994

I want to thank you, Mr. Chairman and members of the Committee for scheduling this hearing on budget process reform and for providing me with this opportunity to join this distinguished panel to testify on the important subject of budget process reform.

As every member of this committee knows, federal deficit spending has mushroomed over the past twenty years creating what may very well be the most dangerous threat to the citizens of this country: a national debt that we cannot afford. Our national debt now stands at \$4.4 trillion or \$17,413 for every man, woman and child in the United States. Interest payments on our national debt consumes 14 cents of every dollar and saps us of our ability to invest in the human and physical resources needed to compete in a global economy. In 1993 we paid \$292 billion in interest on the

national debt. That is more than we spent on defense and almost as much as we paid for social security. Although it appears that we have reduced deficit spending to some \$200 Billion annually, the Congressional Budget Office predicted that despite the 1993 budget package, the annual federal deficit will grow and reach some \$365 billion in 2004.

Just as our national debt has increased every year, our ability to control spending has diminished. We are currently experiencing unprecedented growth in entitlement programs. In 1970, mandatory spending constituted 36% of federal spending. By 1980, that percentage had grown to 53% and by 1995 we will spend some 64% of all federal dollars on entitlement and interest on the debt.

The long term effect of continued deficit spending is catastrophe. University of Pennsylvania economist Alan Auerbach, in an analysis released in April of 1994, warns that net lifetime tax for future generations of Americans would reach 82% or higher unless substantial budget cuts are made

in the next ten years. From the great empires of ancient Egypt and Rome to the birth of our Republic, history teaches that government falters when excessive taxes are needed to support its spending.

Mr. Chairman, that is why I believe that we must take swift and certain action to reign in deficit spending. The budget process reforms that you have under consideration here today are necessary to wean a government addicted to deficit spending from the yoke of dependency.

The so called "Lock Box" would permit Members of Congress to dedicate all or some of the savings from floor amendment, to an appropriations bill to deficit reduction. The measure also provides flexibility by permitting the author of the amendment to reserve the savings for future needs. I prefer the Stenholm version of this mechanism over the one proposed by Mr. Schumer because it will secure cuts in the out years.

I also support reforming "Baseline Budgeting". Currently, cuts in spending are measured against a baseline which includes an automatic adjustment for inflation. Under the current system, efforts to simply slow the rate of growth in spending are shown as a cuts when, in reality, the effect is to increase spending over prior years. By tying baseline levels to the actual level of spending in prior years, we promote honest and realistic assessments of spending proposals.

Finally, we must find a way to control what is called "emergency" spending. Because spending which is designated as "emergency" is exempt from the discretionary spending caps, Congress has stretched the term beyond recognition so that it can escape the caps and fund items which are clearly non-emergency. The Common Cents Plan would tighten the definition of "emergency" and strip out non-emergency spending. There is perhaps no more important role for the federal government than to respond to a national emergency. We know that natural disasters will occur, yet

we have no fund set aside from regular appropriations to pay for these occurrences. I favor creation of such a fund.

Mr. Chairman, I believe this debate is about preserving our Republic. The greatest inherent danger in allowing free people to govern themselves is that the euphoria of liberty will produce an addiction that denies the necessity of self-discipline. Could we achieve fiscal responsibility by just saying "no"? Of course! But telling an addict to just say no will not work. Congress is addicted to deficit spending and it needs the discipline imposed by these and other budget process reforms. We have sold our own possessions and mortgaged our children's inheritance to support the habit. Anarchy is the twin brother of irresponsible democracy. The mystery of the American drama on the stage of history is - When will the twins swap places?

Mr. CONYERS. Let me turn back to Mr. Orton for a concluding comment that he was about to make.

Mr. ORTON. Thank you, Mr. Chairman. It was very much along the lines of what Mr. Deal has just indicated, that I recognize that the problem in the Federal budget currently is not in discretionary spending. We have, in fact, frozen it over the next 5 years. We have processes where we can bring it down.

That doesn't mean that we have solved all of the problems. That doesn't mean that we have cut all of the fat and everything out of discretionary spending that we might want to do.

The broader problem is, in fact, in mandatory spending, which we have very little opportunity to deal with. To suggest that, in fact, we have a regular opportunity to deal with the policy issues in entitlement spending through a reconciliation bill about once every 5 years, I think does not reflect reality.

In that reconciliation bill, we don't discuss policy. We don't talk—I looked at the CBO book on various options of cutting the deficit, and you look at entitlement spending. If you are going to cut the deficit, you are going to have to deal with entitlements.

If you deal with entitlements, there are essentially four or five major issues that you are going to have to touch on. These are public policy issues. We have to decide whether a retirement age of 65 years old is within the scope of reality in our current society. What is the average life expectancy? How long are people productive?

We haven't had the public policy debate on retirement age. We need to deal with cost-of-living adjustments. Are we going to continue providing cost-of-living adjustments? Should they be means tested? Should you provide them to everyone? How do we calculate the formula of cost-of-living adjustments? What about means testing?

Does everyone in the country—are they entitled to every program? Are the multimillionaires entitled to free health care by the U.S. Government when we can't afford to pay for immunization for children?

I mean, these issues we have not addressed. We don't address them in any reconciliation bill. We don't address them in any form in this body and I think, Mr. Chairman, that is part of the problem that we have when we go out to the public and say to the public, we are doing something about deficit spending, when we say to the public, we are making real reform, when we say to the public, gee, this is so tough, we are going to have to raise taxes in order to help pay for deficit reduction. The public doesn't believe it because the public doesn't even understand what the priorities of this Nation are.

I believe if we open up the budget process to public debate on the floor of the House, if we start talking about priority issues from day one, where we are going to raise the money and where we are going to spend it, that will force this body to consider alternatives. It will force us to consider priorities. It will force us to consider sources of revenue, and it will force the public to recognize where we are spending our money; and if they are not willing to let go of entitlement programs, they are going to have to pay more taxes.

Those are the points that I think can be positive, beneficial points through this kind of a debate; and that is why I have proposed through the leadership to do essentially three things.

To make sure that we have an open process on discretionary spending through open rules on appropriation bills—and A to Z is going on right now on the floor of the House; we are debating those cuts—but also to expand that to an opportunity to deal with entitlements, as well as changing the process so that this isn't a one-time, 1-week event, but really a change of the process so we can set these priorities, allocate the very scarce resources we have among those priorities within a balanced budget every year.

That is my ultimate goal, and again, I thank the chairman very much for your patience and participation in this and allowing us to present our ideas before you.

[The prepared statement of Mr. Orton follows:]

STATEMENT OF REP. BILL ORTON
Legislation and National Security Subcommittee
[Government Operations Committee]
June 29, 1994

I would like to thank Chairman Conyers for holding this important hearing today. I would also like to congratulate the many other members testifying today on budget process reforms.

First, I would like to address the question of why we need to reform our budget process. I believe the issues raised in this hearing are an important part of the answer to the basic question asked by so many taxpayers: Why is it that actually reducing the deficit is so difficult when so many members of Congress seem dedicated to deficit reduction?

After careful review of the budget process and participation on the Budget Committee, I have come to the conclusion that our current budget procedures and rules are an impediment to effective deficit reduction. Given the high level of member participation in this hearing, I believe that many of my colleagues agree with this assessment.

Almost two years ago, I introduced HR 1138, a comprehensive bill to reform our budget process. This bill included provisions to provide for a cooperative effort between Congress and the President to reduce the deficit, expedited rescission, sunset authority, performance-based budgeting, elimination of baseline budgeting, biennial budgeting, and capital budgeting. In drafting this legislation, I drew on the hard work of many before me who have also cared about the budget process.

I am pleased to see that Congress has taken action on many of these provisions. Last year, we passed performance-based budgeting. Within the next month, we expect to bring legislation to the floor of the House to provide for enhanced rescission and to provide for entitlement controls.

Today, we are considering a number of important measures dealing with lockbox, emergency spending, and baseline budgeting. I would like to commend the hard work of the individuals testifying today who have developed solid legislative proposals, most of which I have co-sponsored.

In particular, I am a co-sponsor of HR 4434, the "Common Cents Budget Reform Act," introduced by Rep. Stenholm. I believe that Title 1 of this bill, which would eliminate baseline budgeting, is an important step towards providing for greater scrutiny of spending growth.

I am also supportive of a number of changes in the area of emergency spending. I am an original co-sponsor of HR 4189, introduced by Rep. Castle, which establishes an annual reserve fund to pay for emergencies. I also support Title 4 of HR 4434, which would limit each emergency spending bill to one item.

However, I believe that the most important change we can make is to implement some form of lockbox provision. I commend the efforts of Rep. Charles Schumer (D-NY), Rep. Bill Brewster (D-OK), and many others who crafted HR 4057, the "Deficit Reduction Lockbox Act of 1994." I also commend the work of Charlie Stenholm in designing a slightly different lockbox

approach, through Title 2 of HR 4434. I believe it is important that members have a meaningful opportunity on the floor of the House to offer specific amendments to cut spending, and equally important, to reduce the discretionary caps whenever such amendments succeed.

At the same time, I understand the deep concerns held by many on the Appropriations Committee about these approaches, including the concern that we will have a continuously moving target with respect to the discretionary caps.

Therefore, I have recently developed and introduced legislation intended to achieve the goals of lockbox provisions, but in a way that is less intrusive into the appropriations process. I wanted to offer this bill as an alternative to the other lockbox proposals, in an effort to stimulate debate on the choices we have on this issue.

Let me explain how this bill would work. Under my "Budget Responsibility Accountability Act," the lockbox concept would be implemented through the Concurrent Budget Resolution process, instead of through the appropriations process. First, it is envisioned that whenever the Concurrent Budget Resolution is brought the floor of the House, it would be brought under more of an open rule than is currently the case. Specifically, my bill provides a sense of the Congress that amendments to cut or raise spending in functional categories should be allowed.

This is in contrast to our current practice, where only a few amendments are typically made in order to the budget

resolution -- and only in the nature of a substitute. Enactment of the Budget Resolution has a critical practical effect under our current budget process, through the establishment of a binding target for total discretionary spending. By opening up floor debate to greater consideration of amendments, including narrower amendments to functional categories, we are providing for a more meaningful debate and consideration of the discretionary spending caps, as well as focusing priorities of the whole House for the appropriators to consider.

The second critical feature of this bill is a requirement that whenever such amendments are offered on the floor, the author must identify where the specific cuts or increases are to be made in programs, projects, or activities. These specifics would not be part of an amendment; however, there is a requirement that specific line-item recommendations be inserted into the Congressional Record at least a day in advance.

Thus, with regard to specific programs or projects, the vote on any amendment is non-binding. However, the point of this provision is to force authors of amendments to cut spending to itemize how they would achieve the total levels of deficit reduction, or where they would shift priorities and increase spending. In other words, we would end the practice of allowing "unspecified cuts." This makes for a more rational debate and consideration of the spending caps. It also sends an important message to the appropriators about the level of support, or lack of it, for specific programs.

Finally, my bill requires the Budget Committees, when reporting the Budget Resolution out of committee, to show in the committee report where the committee deviates from the President's budget. This change is necessitated by my other provision requiring authors of amendments to itemize specific programmatic changes. However, it is also good policy to require a presentation of how the broad functional categories in the Budget Resolution correspond with the President's budget, which is presented on an item by item basis.

Overall, the effect of my bill is to provide for a more meaningful consideration of spending reductions (or increases) in establishing the discretionary spending caps. I believe it accomplishes the goals of lockbox, but in a different manner.

However, I would like to reiterate my very strong support for prompt consideration and passage of a meaningful lockbox bill, in whatever form. Discretionary caps have been one of the most successful tools we have had to get spending under control. Lockbox legislation would strengthen and improve their use.

Mr. Chairman, again, I appreciate the opportunity to testify today, and would welcome questions from you and other members of the committee.

Mr. CONYERS. Well, I thank you, Mr. Orton. We have another bill that will be out tomorrow with your number on it, which we will add to the half-dozen measures that are being generally examined. We will shortly begin to give them more focused attention, and we would hope that you could follow along with this committee as we begin to try to put in some priority the many provisions.

Some of the bills have many things in common. There was a lockbox provision, which is similar to a cut is a cut in a version in another bill. We have baseline reform in more than one bill. We have adjustment of caps and expedited rescission going on in several others; and we deal with the emergency spending concept, so that there are several points of commonality between all these bills.

Each one, of course, is different in that it is configured differently but these discussions are going to be helpful in what is in perhaps, the widest kind of examination of how to reform budget process that has been held in the Congress in a considerable period of time.

So we appreciate both you and Nathan Deal joining us to make clear your point of view. I invite you to follow our process along, and maybe later on down the road when we have other noncongressional witnesses, you may choose to weigh in again. If you do, you are welcome to come back.

Mr. ORTON. Thank you.

Mr. CONYERS. I would like to now recognize Al McCandless.

Mr. MCCANDLESS. Thank you, Mr. Chairman. I can't help but go along with what it is that you have presented us here with a Budget Resolution Accountability Act. Certainly these are all laudable goals, and I don't know of anyone who is thinking correctly who wouldn't be in agreement with you. And to use the famous phrase in Washington, now, having said that, the implementation of this in the real political arena that you and I and Mr. Deal and the rest of us live in becomes a Herculean task.

The Rules Committee would take a dim view of some of this, and so be it, but I can't help but remember that the famous phrase—I haven't heard it recently, but I think it is still out there, the President's budget—ah, it is dead on arrival; and you have used that pretty much as one of the cornerstones and building blocks of your proposal.

Why the President's budget? Why not something else?

Mr. ORTON. Well, the Budget Act starts with requiring the President to submit a budget request to the Congress within a specified period of time at the beginning of Congress. We then are to act. I think the executive branch spends the money. It is the executive branch that executes the budget, and therefore—and we have required them to submit to us their request. I think that that is the logical place that we then should start.

Now, if we believe that the President's budget is in error in certain areas, too low or too high, we can make adjustments, but I think we then owe it to the executive branch and the public to say where we differ with the request of the executive.

Also, in order to provide the specificity and the opportunity for a Member to get involved on the floor of the House with a specific reduction, you have to frame a point of reference. So if you don't start with the President's budget, as changed by the Budget Com-

mittee resolution which comes to the floor, you have nothing of any specificity in line items or functions from which to cut.

Mr. MCCANDLESS. This is my point. The budget document is rather Herculean and thick in nature with line items on top of line items and so forth; and so, going back to my former statement, how do we implement that into a system on the floor of the House and complete a budget process within a couple of years?

Mr. ORTON. Well, it was done in the 1970's.

Mr. MCCANDLESS. This was prior to the Budget Act?

Mr. ORTON. No, subsequent to the 1974 Budget Act.

There have been, at prior times, previous to the current accepted procedure where we have a budget and then an alternative budget—and those are the choices of the people on the floor of the House—there actually was discussion and debate on line-item issues that took a few weeks to get through the budget process, but they have actually had that in process. They decided that that took a lot of time and really had no effect, and it didn't have any effect at the time because there were no budget caps; and therefore we could spend a lot of time on the floor of the House debating this issue or that issue, and it never made any difference because there weren't any budget caps and the appropriators just appropriated what they wanted to appropriate.

Mr. MCCANDLESS. You don't feel that the entre into the Budget Committee during the budget deliberation process on the part of that committee has any meaning then? You feel it should be done on the floor of the House?

Mr. ORTON. No, I think it does have meaning, and in fact, I think we produce a very good document. I am very proud of the budgets that we have put out of the Budget Committee over the last couple of years.

I have been on the Budget Committee, and I think that it does serve a process; but what I am saying is, if the President ignores broad public opinion and policy issues, if the Budget Committee ignores broad public concerns and policy issues and says, no, we are going to set this as a priority, a priority which clearly is not supported by the public policy of this country, and says, we are going to start in our budget with an assumption that we will fund this, then I think the full House has a right to speak out on that issue and say, no, we disagree with these basic assumptions, we disagree with that program being put in this budget of the United States.

So, therefore, the typical example I would raise is the superconducting supercollider. Broad public dismay at the program. No one outside of Texas supported it for very long, and we voted overwhelmingly to cut that out of the budget. Now, most people thought that actually would reduce bottom-line Federal spending. It didn't reduce spending a dime because the money is simply available under the allocations to reallocate somewhere else to some other spending project.

My point is, if the President says I am going to assume funding for the superconducting supercollider in my budget and the Budget Committee says, we are going to assume funding for the superconducting supercollider in our budget, and the full House says, that is a bad idea, we don't want to do that, I think the full House should have an opportunity to raise the issue and debate it

and say to the body, we don't want to assume funding for that in this budget. Therefore, we want to take it out and we want to lower the spending caps by that amount of money.

And by doing that, the effect within the budget is to lower the spending cap. You have not eliminated the program because the budget resolution is neither an authorizing bill nor is it an appropriation bill, but it does set the broad cap. It sets the level at which we can spend overall.

Now, if the Appropriations Committee comes along later and says, no, the House didn't know what they were doing, we are going to fund money for the superconducting supercollider anyway, and then they bring the appropriation bill back to the floor, we can say again, no, you have ignored our priorities. We don't want to fund that. We are going to take the money out of that. We took it out of the budget already, and we have money in the budget for funding other programs, but they chose to take it from those other programs and put it into the superconducting supercollider; and so we can cut it out of that in the appropriations bill without changing the budget caps.

And so this proposal works by taking it into the budget process, where I believe it belongs, to allow us, when debating the budget, to debate broad public policy issues, to set broad priorities.

We are doing it right now with no debate. We are doing it right now with no focus on the assumptions. We are doing it right now with no understanding, no public policy discussion, no debate, no votes.

We just set a cap, and the cap is based upon, to start with, the assumptions in the President's budget as changed by the Budget Committee, but it is all done in macroeconomics without looking at any real data and detail. I am saying, by looking at the real data and detail, we are likely to get a better product than just by setting the cap to begin with and then coming along later and saying, we will debate all the policy issues within that cap and decide where we are going to spend it, but we are still going to spend this amount of money. The question is where we are going to spend it.

I think by backing up into the budget process itself, we can lower the amount of money we spend by debating broad public policy issues and specific programs and whether we want to set those as priorities; and if we do, then we darn well better also recognize that we have got to pay for those programs and we had better raise revenues somewhere to do it. That, I think, is where we get the real accountability to the public for what it is we are saying are our priorities.

If we are not willing to raise the money to pay for it, then we ought not to set it as a priority for spending; but we never get around to that kind of debate because of the process we currently have.

Mr. McCANDLESS. Thank you.

Mr. Deal, I didn't catch all of your testimony. I am sorry, but if I were to capsule what it is that you presented to the committee, you feel that current cuts are not sufficient, that rules, the process is too complicated and the public can't understand and reform is necessary. Would that be a fair statement?

Mr. DEAL. Yes, I think it would. The point I was making is that even though for our own internal purposes we have complicated rules that we follow, that they at some point in time had a purpose, I believe that we have to reexamine those purposes to see if they are actually accomplishing what we really wanted them to do, and I think some of these process reforms go to the heart of those and say, look, we need to simplify the process, we need to be able to achieve the goals that we had in mind. And although this is the first time I have heard Mr. Orton's proposition on his new bill, it certainly has that same kind of common sense approach that I support.

Mr. McCANDLESS. Thank you. Thank you both.

Thank you, Mr. Chairman.

Mr. CONYERS. Mr. Zeliff.

Mr. ZELIFF. Thank you, Mr. Chairman. Thank you both for excellent testimony. I certainly support what you are trying to do and I think you are right on the mark. As a matter of fact, Bill, when you were talking there, I couldn't help but think you were describing A to Z; and would like to just ask you, you know, where are you on A to Z?

You were a cosponsor. Where are you now, and aren't we really both in support of both propositions, an A-to-Z process that looks and reviews all programs from A to Z, including entitlements? It sounds very much like we have the same kind of goal here.

Mr. ORTON. I think we do share the same goal, Mr. Zeliff, a goal of actually reducing overall Federal spending, but doing so through inclusion of all of the Members of the body in allowing them to participate in that debate and decisionmaking process.

I think the basic fundamental principle of A to Z is—and you being the original sponsor can tell me if I am right or wrong, but I believe the original purpose is to allow Members to participate and propose specific cuts.

Mr. ZELIFF. That is correct.

Mr. ORTON. And if, in fact, the full body agrees with those cuts, that they actually should reduce spending.

Mr. ZELIFF. Right. So it is amazingly simple.

Mr. ORTON. Amazingly simple. Now the question and the debate, the question whether we do it through a discharge petition, whether we do it through the committee process, how we bring this about, that is where the debate is.

I have not signed the discharge petition because I am not convinced yet that doing this for 1 week in debating 1994 spending cuts, when 1994 is almost over—we have 2 to 3 months, if it were passed today, of spending cuts that we could actually make, and that is a one-shot deal. I am not convinced that that is the best formula for accomplishing our common goal.

What I am attempting to do is change the process so that, in fact, we can accomplish the goal over a longer period of time. So that by changing the budget process itself, by opening up not only the appropriations process to open rules, but essentially opening up the budget process to open rules and allowing us to fully participate, propose priorities, either spending increases or decreases.

I am not suggesting that the only thing you are going to get through this process is a cut. You may get this body saying we

haven't devoted enough resources to this particular problem, and so what I am simply trying to do is say, how is the best way to accomplish the common goal.

If we can get this body to move in taking up these issues on process reform and having open debate on appropriations bills and in opening up the entitlement process some way so that we can identify programmatic changes and specific reductions in entitlements, then I believe we accomplish the common goal perhaps even more successfully than through the discharge petition.

Mr. ZELIFF. OK. My suggestion to you would be that we could do both. We could do the cuts that are in A to Z and we could also do the process reform as well. And I think they compliment each other, they don't really compete with each other, and that is why I say, we are both heading in the same direction.

I know you had indicated—

Mr. ORTON. Could I just respond to that one point very briefly?

Mr. ZELIFF. Sure.

Mr. ORTON. I am also a very practical, pragmatic politician, and I have come to learn in this town over the last 4 years that you only get what you take. And in all honesty, I don't believe I could get the leadership to agree to the process reforms, to bring these things up. In fact, we discharge A to Z. Therefore, I don't know that we will get both. We might get one or the other, and the question is, which will we get, which will be most effective to accomplish the common goal. And I am being just very blunt with you, and I think that your process has, in fact, moved this body forward toward that common goal, and I think whether we achieve the goal through my proposal, through Charlie Stenholm's, through something that is yet to be developed by the committee or through the discharge petition, if we achieve the goal, then we have all succeeded.

Mr. ZELIFF. I agree, and America wins. I guess I was hoping to hear you say that, you know, as we have talked before, that you were hoping to work something out with the leadership that would be very defining, that you would have a laid-out program in terms of specifics, that you could agree with, and you were hoping to do that rather than sign immediately on to the A-to-Z discharge petition, and if that didn't work you would be there as with your colleague, Nathan Deal, who is sitting next to you who did join us.

I want to congratulate your leadership, what you have done in terms of our negotiation with A to Z. You know, it has been tremendous, and, you know, I think we really have a good, strong bipartisan effort and we are looking forward, Bill, to your involvement as well.

Mr. ORTON. Well, I think this committee hearing is part of that process, of getting specific detail of how we are going to reform the budget process, of how we are going to actually open up the entitlement spending to priority discussions and policy discussions, and so I think we are accomplishing right now what we are setting out to accomplish, and therefore at this point in time, I don't see a need to sign the discharge petition.

If that breaks down and fails and we are unable to move forward and the discharge petition is the only mechanism, then you have to consider signing it at that point in time.

Mr. ZELIFF. Do you have a schedule on your entitlement cuts?

Mr. ORTON. What do you mean do I have a schedule?

Mr. ZELIFF. That is going to take place——

Mr. ORTON. Has that been set for a specific date? To my knowledge, it is not yet set on the calendar, but it is my understanding that we have a commitment to set it on the calendar.

Mr. ZELIFF. Well, we wish you luck. Again, Mr. Chairman, I just want to say I think it is very encouraging to see a bipartisan effort here with a Member of our class and a Member of the freshman class on the other side. We are all working in the right direction, and we will be very happy and pleased to accept you on board on I think it is number 204. Thank you, Mr. Chairman.

Mr. CONYERS. Well, I want to say that if you are trying to bring order into the budget process, I think the way that you bring it in is going to be very important. We are in the midst of a calendar year. There are certain things that have gone by already and that can't be reclaimed, no matter what one's position might be. So it seems to me that the better course may be to see how far we can go within the system in an orderly way, even if it results in working on the next fiscal year, which is, frankly, on us anyway. I would also urge the Members to think about that parliamentary process.

Let me now recognize John Spratt of South Carolina.

Mr. SPRATT. I am sorry I missed your testimony, but I understand the concept and I have read your bill. It is a provocative idea.

One of the objections to this approach allowing anybody to attack specific functions and lower those functions is that usually the budget resolution is a fairly delicate balance. There is a lot of give and take and compromise in putting together the final resolution that will muster a majority on the floor.

Suppose you instead have the alternative of, say, presenting your own full-up resolution, where you could lower functions, lower the spending cap, but do it as a complete budget proposal, and that we had a rule of the House or not a rule of the House or a statutory provision that any Member who could present a petition signed by 50 of the Members, let's say, show at least that amount of support for his proposal, they would have to certify that they supposedly intended to vote for it and wanted to see it go to the floor, would have the right to have his resolution made in order.

Would that be an acceptable alternative to what you have got here?

Mr. ORTON. Well, Mr. Spratt, I think I recognize or understand what it is you are suggesting. I mean I understand the political impetus behind it, which is you can go through a lot of debate and discussion where people will vote for an amendment, but are not going to vote for final passage of a resolution, and if you can vote for enough amendments and pull enough other people off of final passage, then you can defeat the whole resolution. So rather than in honesty trying to perfect the bill, there will be those people proposing amendments trying to destroy the bill. And therefore, by requiring an entire substitute to be submitted, you then pass a bill, a resolution in total, which has made this specific change.

If it is opened up enough in the process so that you have any Member being able to bring a substitute to the floor, then, in fact,

it might work, although it becomes more complex and more difficult, because we then are looking at 35 different substitute budgets, and it is very difficult to analyze everything in that budget, because the budget is four or five volumes thick and you may change——

Mr. SPRATT. That is why I was saying you would have to present a petition to the Rules Committee, the leadership, the Clerk of the House, somebody that——

Mr. ORTON. But my point is even the whole House, when considering that separate budget, is going to have to understand that you are changing this and this and this and this, and the other function, and you have 15 different things, and you can't really set any kind of public policy or priorities on a particular issue. And what we are trying to get at is allowing the body to speak on particular policy issues, like the superconducting supercollider, for example, and saying that we simply ought to pull that out of funding in this budget. And so I believe that we need to stay with the process I have recommended, where a Member could propose a specific reduction, and that reduction would have to pass the whole body.

I do recognize and have sympathy for your concern that we then may end up with a bill that you can't get 218 votes for. I think that is a very real concern, and I recognize it, and we are trying to find resolution to that that people are comfortable with as well.

Mr. SPRATT. Thank you very much.

Mr. CONYERS. Thank you, gentlemen, we are in your debt. We hope you will follow us and feel free to visit as these hearings proceed.

Mr. ORTON. Thank you very much, Mr. Chairman.

Mr. DEAL. Thank you, Mr. Chairman.

Mr. CONYERS. Thank you, Mr. Orton and Mr. Deal.

I am delighted now to call up the author of the A to Z, Rob Andrews, and if Bill Zeliff chooses to join you at the witness table as coauthor of H.R. 3266, we would be very pleased indeed. Thank you for joining us at this time. There has been a great deal of discussion about the idea that you bring in deficit-fixing proposals, and we are anxious to get your view of how this measure would work and improve the budget process. Who cares to begin?

Mr. ZELIFF. Well, Mr. Chairman, I think what I would like to do is just have my—ask for unanimous consent to have my entire statement included in the record and then let my partner over here, Rob Andrews from New Jersey do the testimony. I think I have given a fair amount of contribution during the afternoon. So rather than take your time up——

[The prepared statement of Mr. Zeliff follows:]

OPENING STATEMENT OF CONGRESSMAN BILL ZELIFF
Government Operations Hearing on A-Z and the Budget Process
 29 June 1994

Mr. Chairman,

This subcommittee is today considering several worthwhile budget process reforms. I support most of the ideas that will be presented, and I strongly believe that this Congress must enact serious budget process reforms before the year is out.

There are press reports, including the liberal Washington Post, that claim "the leadership has agreed to allow votes on ... proposals for reforming the budgetary process in a desperate attempt to block passage of the A to Z Spending Cuts Plan."

I hope we are here today to seriously consider ways to reform our failed budget process not simply to provide political cover for people who do not want to be accountable.

There is no real connection between budget process reform for the future and A-Z Spending Cuts now.

The only real way to cut the deficit is to cut spending now. Our nation has a \$4.7 trillion national debt. Budget process reforms cannot cure this ill.

You can see from these charts that the debt rises to nearly \$6.5 trillion by 1999 with interest payments of more than a quarter of a trillion dollars.

Budget process reforms are an important part of the prescription for future change, but we must make sure that they are more than a placebo. We are not here today simply to provide political cover.

We should not consider votes on the budget process as a substitute for real votes on real spending cuts.

The purpose of the A to Z Spending Cuts Plan is to permit every Member of this House to suggest some way to cut spending. Every proposal would have a free and fair debate. Every proposal would receive an up or down vote.

Perhaps we should also have an A to Z Budget Process Reform Plan. Then every Member of the House could propose meaningful changes in the budget process.

But we must never lose sight of the fact that the only real way to cause real deficit reduction is through real votes on real spending cuts.

The best budget reform this House could get is a free and open process that allows every Member of the United States House of Representatives to propose spending cuts uncensored by the Leadership.

Let the proposals be debated. Follow the debate with a roll call vote.

It's called representative democracy ... and it will give us accountability and responsibility from A to Z.

Mr. CONYERS. That is a great way to do it. We have agreed to incorporate all of the statements. So yours will be in, Bill, and Rob, welcome to our committee and we are delighted to hear from you. Congratulations on a proposal that has gained such wide attention, both on Capitol Hill and across the country.

STATEMENT OF HON. ROB ANDREWS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY

Mr. ANDREWS. Thank you, Mr. Chairman. Thank you for the chance to be here, and let me begin by thanking my friend and colleague, Bill Zeliff, for his continuing friendship and cooperation in this. I want to begin by saying that one of the things that impressed me when I came to Congress in November 1990 was how genuine and how committed virtually every person I have met here is to the betterment of this country as he or she sees it. It is a rather striking dichotomy when you look at the way the public generally perceives politicians and Congressmen specifically.

Mr. CONYERS. I think we are misunderstood.

Mr. ANDREWS. And the way that folks really are. I do think people misunderstand us, and it is a privilege and honor to serve in this body and it is a privilege and honor to work with people who are doing in their heart what they feel is right for the country. And I think virtually everyone I met here falls into that category.

Having said that about motive, general motive, I want to respond to a couple of points made earlier about the motives of those of us who are sponsoring the A-to-Z plan, by answering some questions I know have been raised here today. I am sorry I was not here when they were raised, by the way. That is not your responsibility, but I would like to answer them for the record.

Why don't A-to-Z sponsors like me go to the floor and offer amendments to open appropriations bills and cut spending that way? Well, I have chosen, with my Washington staff of six people, to devote my time to pushing the A-to-Z initiative, an initiative which has drawn the active opposition of the Democratic Whip, the majority leader, the committee chairmen throughout the Congress, the Speaker of the House, and various other instruments of the Democratic Caucus, which is their right, privilege and prerogative.

I have chosen to focus my time on pursuing this initiative against that opposition, and chosen not to exercise my resources and spend my time on individual amendments to this point. I certainly am prepared to do that when A to Z comes to the floor.

Why do A-to-Z sponsors like me write letters to appropriators and sometimes vote for projects that would spend money in our district, and then later accuse other people of pork barrel spending? President Clinton, the other day, was asked about why the Democratic Party continues to raise soft money that he criticized during the campaign, and he said he is not prepared to disarm unilaterally. Well, neither am I. And as long as we are operating under rules where there are possibilities of exploring earmarked projects for your district, as long as we are operating under a system where individual projects that don't have a national scope can be funded through the Federal budget, any Member who fails to avail himself or herself of that process is neglecting his or her duties.

Why is A to Z necessary when we have open appropriation bills—rules, rather, on the floor all the time? Well, it is necessary because the term, “open appropriations rule,” is awfully misleading. And I do not suggest that the Rules Committee intends to mislead anyone, nor do I suggest that those who use that phrase do either. But let me offer you two examples of why so-called open appropriations rules aren’t very open at all, if you mean to imply by saying that anyone can come to the floor and put his or her best idea forward.

Representative Zimmer, a minority member of this committee, proposed earlier this year that the medical college that is run by the Pentagon for special medical training for Armed Services medical personnel be phased out, because he felt that given the high quality of medical education already available in this country, that it was not necessary or desirable to have a separate medical school program under the Department of Defense.

If representative Zimmer were to go to the floor during the open rule, if there is one, on the defense appropriations bill next month and offer that amendment, it would not be in order, because it would be struck down on a point of order as legislating on an appropriations bill, because Representative Zimmer did not simply propose reducing the amount of funding for that program or cutting it out altogether; he came up with what I think is an intelligent, fair, rational, constructive approach to phaseout the school. Let the present students continue their education and close it when they are done.

He offered that amendment through the defense authorization bill. He went to the Rules Committee, and the Rules Committee ruled his proposal out of order for reasons that I am sure are legitimate and within their purview, but a rule out of order.

Now, Representative Zimmer could go to the floor next month and offer an amendment to cut 25 percent from the funding for that school. And what would happen is that Members of Congress would get up and say, this is an arbitrary and unfair and irrational proposal, because the school is still operating and it still needs 100 percent of its money, and it creates uncertainty, and what is going to happen to these students who started their medical education and may not finish it? And that argument would be correct. It would be governmentally irrational and irresponsible to offer such an amendment, and it would lose, and the funding would stay where it is, and the program would stay where it is, until the chairman of the authorizing committee or a majority of members of the authorizing committee felt differently. That is not an open process.

Second example. Several years ago myself, Congressman Bill Sarpalius from Texas, Congressman Curt Weldon from Pennsylvania, Congressman Nancy Johnson from Connecticut, thought that there was a better system for pursuing a system of foster child block grants—foster child care block grants to the States. Very similar, by the way, Mr. Chairman, to your innovative ideas about eliminating State mandates, Federal mandates to States and letting States and cities do more of their own ideas, a bill which I have cosponsored that you have introduced.

Mr. CONYERS. Thank you.

Mr. ANDREWS. That was a change in an entitlement program. If we wanted to offer that during the relevant appropriations bill, of course, we could not offer it, because there is no relevant appropriations bill, because it is an entitlement program. So an open appropriations rule doesn't let us do that. Instead what we did was offer a bipartisan substitute to what was called the Child Preservation Act, I think, of 1992, or 1993, and offered this substitute which would have reduced the entitlement over 5 years, increased the amount to be spent on children by reducing State administrative allowances in this program.

The Rules Committee ruled the alternative out of order. We fought the rule, we lost the rule vote by about 30 votes, and our proposal never came to the floor. That is not an open process. That is why the A-to-Z open process is necessary.

Why do A to Z? Why is it necessary? I would make this argument to you. First of all, and this may surprise some of my A-to-Z cosponsors, I think the biggest losers under the A-to-Z process would not necessarily be defenders of Government programs who believe in the validity of those programs and have not signed the A-to-Z bill or petition. I think the biggest losers might be some of the A-to-Z cosponsors and petition signers who love to go home and make speeches at the Rotary Club about the evils of the debt and deficit, but never want to cast a real hard vote to take money away from people, who are ready to vote against helium reserves and mohair subsidies and those sorts of things, but are not ready to say you must pay another dime to ride the bus in the morning because transit subsidies are going to be cut. Your daughter has to pay another quarter of a percentage point on her student loan, because the education budget is going to be changed. Your town is going to get 95 percent of the money under its community development block grant to pave roads next year because that has to be done.

I think this is the greatest smoke-out device in the recent history of American politics. And all of these people, including me, who have gone home and made the antideficit speech to the Rotary Club are going to have to, pardon my French, put up or shut up, and there is going to be a series of votes that sometimes hurt and always effect real people with real dollars and real issues.

I think then we would begin to restore the credibility of this institution, of politics in general and of Government more generally, and I think each one of us, the next time one of our political opponents, whether he or she is a Republican or a Democrat, stands up in a debate and says Congressman, you incumbents have ruined the country by running up the Federal debt and Federal spending, can say to them, here are 750 specific budget cuts that I had to cast a vote on. How would you have voted, yes or no?

Let me say to my Democratic friends, those who believe that this process would hurt the Democratic Party, I think are listening to a different set of constituents than I am listening to. I think it would help the Democratic Party, because I think it would force people, frankly, from the other side, not including my friend and colleague, but some people from the other side who love to talk about cutting spending, but are never willing to really do it.

A to Z is an abnormal, unusual, radical procedural change. It is necessary. It is necessary because people no longer believe we can

handle their money carefully; they believe we are always looking for a procedural dodge; they have been misled into believing that we can solve this problem by getting rid of somebody else's program in somebody else's State that will hurt somebody else. It isn't true. And the A-to-Z plan is an opportunity to address that problem in a real and meaningful way.

Finally, why should we report out the A-to-Z process and why should it come to the floor? The most basic reason I can give you is this: our Constitution is not a Constitution that sets up a democracy. It sets up a republic. The one institution in the Federal Government that is a majoritarian institution is this one.

The U.S. Senate really needs 60 people to get something done. Laws can be blocked by the stroke of a pen from one incumbent in the oval office in the executive branch. The Supreme Court by five can strike down a law that is passed by 500 in the Congress of the United States. The one institution under our constitutional scheme that is supposed to be the majority rules is this one. And we have a majority on this bill. There are 230 Members of the House of Representatives that have read this bill, listened to the arguments, listened to the detractors and cosponsored the bill.

Mr. Chairman, you are a fair-minded person who has contributed much to the discussion of these issues, and before I answer questions, I would just close by asking you one. And that is when can we expect our bill reported out since it has a majority of people supporting it?

Mr. CONYERS. You want to know when your bill will be reported out of this committee?

Mr. ANDREWS. Yes, sir.

Mr. CONYERS. I am not able to answer that. You are about the 10th witness of 21 Members in the Congress who are going to testify, and we are going to have some hearings with a number of other persons in and out of government. So I am unable to give you a date. But even if I were, I wouldn't give it to you anyway, because it is not necessary, nor is it appropriate. If I did it for you, I would have to start doing it for every other piece of legislation that came before us.

Mr. ANDREWS. I appreciate that.

Mr. CONYERS. I thank you very much for your testimony. I think that the beginning of this process of hearing testimony is very critical because it forces us to listen to each other. It may be necessary for me to invite you back again, because we are at the beginning of a curve, and I know that there will be more information coming to my attention as we go along.

Let me ask you and Mr. Zeff whether or not you feel that it is an accurate criticism that the A-to-Z proposal will hurt programs for the poor and middle class disproportionately. By expanding rescission authority and moving that authority into entitlement programs, we are now placing these important programs, programs that had been set aside by our own legislative directive, at risk and we are now using this new process, perhaps, as an instrument to go back in and raid and disassemble many valuable social programs.

Mr. ANDREWS. I disagree with that criticism, and I think it is off the mark. This is not fashionable to say: I have faith and con-

fidence in the judgment and conscience of the people with whom I serve, and I think they cast in the overwhelming majority of cases well-informed, intelligent votes that are meant to serve the people of the country. If we are at a point where we believe that a majority would maliciously or recklessly cut programs that would hurt needy people in this country, then I think that says something awfully ugly about our politics.

On the other hand, if we are saying that we are unwilling to subject programs to review by the majority, what else are we unwilling to subject to review by the majority? Are we willing to say that taxes should not be increased unless a super majority can do so, or can a minority block a tax increase? Are we willing to say that regulations which regulate the environment or education can be blocked by a minority? Are we willing to say that changes in rules governing employment or health care or social services can be blocked by a minority?

I think implicit in that criticism, which I have heard, is a distrust for majority rule. If majority rule impedes upon the legal rights of people, they have redress in the courts. If majority rule intrudes upon the political rights, our system basically says that the check and balance is the Senate and the executive veto.

Mr. ZELIFF. Mr. Chairman, can I just add one quick comment? In my judgment, what we are doing here is we are arguing the merits of the case, and when you come to, just to use an example that effects my home State of New Hampshire, low-income fuel assistance is vital, and you know the games that have been played with that every year. Would I stand up and argue that based on the merits of the case and hope to win that case? Whereas you have come to something like we have heard a lot of testimony today on health care and Medicare.

One proposal that I would put forth is means testing for Medicare. People who are making \$75,000 a year or more should be treated and pay a little bit more than someone that could hardly put food on the table, and again, hopefully, we will win that based on the merits of the case. So the question is, who is to decide? The majority? Why can't we all, and I agree with my colleague, Rob Andrews, why can't we all be trusted to argue the merits of the case and make the decision up or down in full view of everybody in America, including ourselves. So it is a fresh approach, it is a new idea, but you know, it is not that big a deal, it is not that scientific. It is simple, straightforward to understand, and I think we can be trusted to do the job in a responsible way.

Mr. CONYERS. Well, I want to examine that a little more carefully with you. For example, the wealthy Medicare recipients, you may or may not know that historically, that provision was included because those who were against Medicare, period insisted that it include those of every rank and class. It was not something that was thought of as an ideal way to proceed, but it was a condition of getting a sufficient number of the votes. The same with Social Security. That goes right up the ladder. As we know, those in the upper ranks don't really need it.

Mr. ZELIFF. Going back on the Medicare, Mr. Chairman, with due respect, maybe it is time to review that decision, and that is all we are saying with A to Z, is let's take another look.

Mr. CONYERS. I quite agree.

Mr. ANDREWS. Mr. Chairman, if I may just chime in one thing. One thing that surprises me as the way the Federal Government does business as a former local official is that we have the opposite of what most local county and State governments do with spending money. In most local governments, you need a super majority to spend money. If you want a bond or incur debt, you need a super majority of a legislature or city council very often, or a county board of commissioners. Here you seem to need a super majority to reduce spending, and I don't—I don't say that to be flip, but it strikes me as a rather odd juxtaposition of the way government has usually been set up in this country, and I don't quite understand it.

Mr. CONYERS. Well, the same number operates on both sides of the issue. If you get 218 votes, you can either cut or add to a measure. I didn't know there were two separate standards.

Mr. ANDREWS. Oh, I disagree. I think that if you get 218 votes on a proposal that makes it to the floor, you can get it done, and to get something to the floor, you need the authorizing committee chairman to make it happen, through a majority of his or her committee. You need the Rules Committee to decide something is in order, and then you need to make it happen. No question, 218 wins on the floor, but the real issue is how does something get to the floor?

Mr. CONYERS. Well, that means that we have the same standard, because those supporting or opposing increases would be those same chairmen, those same committee members, and actually the same process.

Let me ask you now about a comment that you made that you didn't think that the Members would maliciously discriminate against the poor middle class in using the A-to-Z proposal in terms of revisiting some of the programs, particularly entitlements.

Mr. ANDREWS. Yes.

Mr. CONYERS. Well, suppose a person without being malicious or mean-spirited merely chooses as a matter of political preference, the fact that they would support those who are not in the poor and middle income class, without being bad fellows; that it is just a policy choice that they may happen to prefer. So that it wouldn't be inferred that a person was malicious if they used the A-to-Z proposals in this manner, but that they were merely exercising the kinds of preference that all of us do in the course of our responsibilities.

Mr. ANDREWS. Well, I, frankly, would call that legislating. And I guess what I would say to you is this: that our system, as you well know, because leaders like yourself have taught newer Members like me this lesson through the work that you have done. Our system draws a line between rights that are vested in the Constitution, more fundamentally and rights that are political rights, that are determined by a majority of the legislature. And if you impede upon someone's constitutional rights, their right to be free of discrimination based on their race or agenda; their right to be given due process, you can have 100 percent of the legislature vote for it and it doesn't fly. The courts are there to guard us against that. But rights that are given by a legislature or entitlements given by a legislature can be taken away by a legislature.

And if the majority wants that to happen, it happens. If the result is unjust, if the result is unjust, what our system permits us to do is to change those who sit in the legislature, or change he or she who sits in the White House so he or she can use her or his veto authority, or to ultimately change the Constitution to give a protected constitutional right. But implicit in that question seems to be the notion that if a legislative decision has a disproportionate impact on a particular economic class, you need more than a majority of people to approve it. And that is not my understanding of the way our Constitution is or should be.

Mr. CONYERS. Well, I think your response encourages those who may think that this A-to-Z proposal may inadvertently or nonmaliciously hurt programs that disproportionately affect the poor and middle class. Let me try to approach this one other way.

Mr. ANDREWS. Yes.

Mr. CONYERS. What about the notion that tax expenditures cannot be cut in the A-to-Z process—only discretionary spending and entitlement programs—not tax expenditures. Would there be any merit in your considering, as the authors, in including a provision permitting tax expenditures to be affected by the same process?

Mr. ANDREWS. Let me respond to that for myself and, obviously, my friend will respond for himself. I believe that the American public wants, and our bill provides, the following argument: we will go through our bill line by line, dollar by dollar, program by program, and have an open, honest debate on where we should spend our money and where we should not, given the money we already take in. If subsequent to that, people believe that more money should be taken in or money should be taken in in a different way, that that is a legitimate and necessary discussion.

Let me say further that I would support, if your question is getting at this, I would support the same thing. If we want to have a proposal where anyone could propose a modification of any provision of the Internal Revenue Code, by going to the floor and issuing his or her best idea, whether it is to raise revenue by closing a tax loophole, or simply by raising revenue by imposing an individual tax, I would support that.

I think the chairman of the Ways and Means Committee would be a little reluctant to do that. But I would support something like that happening, sure.

Let me say this point finally, Mr. Chairman, about the issue of poor people and economic decisions. A lot of the poor people that I represent, people who make \$11,000, \$12,000 a year who work for a living, sometimes 40 hours a week, much like your constituents in your district who are in many cases ineligible for assistance programs and in all cases pay taxes when they do work, drive to work. And last year as a result of the deficit reconciliation bill that was passed, they paid an increase in gasoline tax of 4.3 cents per gallon. That had a disproportionately negative impact on poor people as far as I can tell, but I didn't hear anybody saying then that there should be something more than a majority vote required to pass that.

What is the difference?

Mr. CONYERS. Well, you are arguing against yourself now, because you are the one that thinks that there are different stand-

ards. I am the one that argues that it is 218 on either side of the case.

Let me—

Mr. ANDREWS. Well, may I just answer that? If I just could answer what you said, no, I am not. I think it should be 218 no matter what, and I think it should be 218 on spending and 218 on taxes, and I just find the contradiction here to be that if the principle is that we should be careful to prohibit a simple majority from making a decision which has a negative impact on a different income group, why doesn't that apply to across-the-board aggressive taxes as well as spending decisions?

Mr. CONYERS. Well, that is my question. I am the one that raised the tax question, not you.

Mr. ZELIFF. Let me just jump in, if I can.

Mr. CONYERS. Well, let me just finish one other point, Bill, and then we will move forward. Because I was intrigued by your suggestion that, frankly, you wouldn't mind if there was a way to make tax changes up or down in a mechanism similar to A to Z. But would you be willing to have such a mechanism involved in A to Z?

Mr. ANDREWS. No, I personally would not, because I think the job that is first before us is to examine whether we have the right spending priorities. And Congress has raised taxes lots of times in the last 10 years. What it has not done, in my opinion, is this kind of effort.

Mr. CONYERS. Well, wouldn't A to Z give you the opportunity to cut taxes much easier than the difficulties that have been experienced before?

Mr. ANDREWS. No, because that is not in order under the A-to-Z plan. What is in order under the A-to-Z plan is the ability to identify a spending program that should be altered or reduced or abolished, and after that is done—let me say this, Mr. Chairman, about taxes. I am from New Jersey, and New Jersey is a place where tax increases nearly upset a very able popular incumbent Senator named Bill Bradley. It did upset my predecessor, a very able, deserving Governor, deserving of reelection, and what I hear people saying is not that they hate taxes, or they don't think that they have to pay them.

Here is what I hear them saying: the burden of proof, Congressman, is on you to show me that the money I am already giving you is being wisely spent and prudently shepherded. And until—I don't believe that it is now. And until you demonstrate to me that it is, that you have made a conscious, all-out effort to do so, don't take any more from me.

After you have done that, if I am convinced that you have made—you meaning the institution has made a good faith effort to examine spending priorities and said to people, you know, it does cost money, but by God, we ought to have more opportunities for low-income children to have subsidized child care. That is important to us as a society. Or we ought to have 100,000 police officers on the street, that is important to us as a society. We will pay for it. But we will not pay our hard-earned dollars unless we get value for it. And I think the way you convince people they are getting

value is to systematically review their budget in a way we have not done so to date.

Mr. ZELIFF. Mr. Chairman, just one quick comment. Chairman Obey suggested earlier—I think we started at 11 a.m., on this—and suggested we have A to Z on looking at tax loopholes, tax incentives; he even then mentioned Tyson chicken, and I think this is an example where we could take a look at A to Z on that subject separately, but what we are concentrating on is on cutting spending. I think also we could do A to Z on government regulation, A to Z on unfunded mandates. I think A to Z is just the process or a concept, and I think certainly we would be willing to consider that, at a different point, not this year with this particular A to Z.

Mr. CONYERS. Well, this has been a most helpful discussion. I am going to be examining particularly Mr. Andrews' novel approach here, because we have agreed that perhaps tax changes through A to Z might be OK, but not through this bill.

Mr. ZELIFF. According to the way the rule is written.

Mr. CONYERS. I understand. I would like to ask one last question, and then Mr. Spratt will be recognized. Isn't it true that tax expenditures benefit the wealthy more and they are, under your proposal off the table while discretionary programs and entitlements are used more heavily by working families and the middle class and are more potentially A-to-Z targets?

Mr. ANDREWS. Well, let me respond this way: no, it is not true. And specifically here is what I would say to you. If Members want this institution to go through a process where any Member can come to the floor and propose the closure of a tax loophole and get a debate in an up or down vote, or an increase in any given tax and get an up or down vote, tell me which bill it is and I will cosponsor it, and if the committee bottles it up, tell me which discharge petition it is and I will sign it, because I think that that would be a worthy exercise for us to engage in.

I think, however, having said that, that the concept that tax expenditures are an expenditure of public money is based on the rather bizarre notion that government owns our earnings, and is beneficent in letting us keep some of them by giving us the ability to deduct some of them from our tax return. It seems to suggest that we start from the proposition that government has the right to take everything that we earn and what it permits us to keep is gracious and beneficent.

I think that the history of our country, the foundation of our Constitution and the consensus of our people all point to the opposite conclusion, which is to say that our earnings belong to us, and it is only after a majority of the Congress and the President signs a bill taking some of that away that it belongs to the government. So—I mean that is a philosophical difference, but I wish that we had a chance to debate that kind of philosophical difference in a series of up-down votes on specific proposals on the floor like this one, instead of having to vote on a massive reconciliation package that a handful of people sitting on one committee have real input into. And if those critics choose to introduce such a bill, I will be an ally of theirs.

Mr. CONYERS. Thank you very much. John Spratt.

Mr. SPRATT. Thank you very much, Mr. Chairman. Thank you both for your testimony.

I am reading H. Res. 407. Is that the resolution that you discharged or filed a petition to discharge?

Mr. ANDREWS. Yes.

Mr. SPRATT. As I understand this, if a particular item of discretionary spending was rescinded under an A-to-Z process, the dollar amount of that item would be deducted from the 601-A discretionary spending limit for that fiscal year, the balance of that fiscal year, but not beyond. Is that correct?

Mr. ANDREWS. No, that is incorrect. Let me also say to our friend from South Carolina that we have agreed, the sponsors have agreed with the group led by Mr. Deal and Mr. Stenholm to clarify the issue, that this would be deducted from all caps covered by the present reconciliation law, not simply from the 1 year.

Mr. SPRATT. And how do you effect that change in this resolution then? Are you going to file in the resolution?

Mr. ANDREWS. There would be an amended rule.

Mr. SPRATT. There would be an amended rule.

Mr. ANDREWS. Yes, sir. Because our intention was to do what I just said and, frankly, there were technical problems with it. To Mr. Stenholm's credit he pointed that out and we corrected it, and a number of people joined our cause after we did.

Mr. SPRATT. Would you have to have a discharge petition for the amended rule then?

Mr. ANDREWS. No, we would not. It is my understanding that the way this works is that when we reach 218 signatures, a motion to discharge is in order. If the motion is adopted by a majority of the House, the rule is on the floor of the House. The rule is subject to a limited power of amendment. We have agreed that we would offer a substitute rule to make the amendment I just talked about. If it were adopted by a majority vote, what would then be in order would be the rule, as amended, and the rule would be, then, either passed or rejected. If the rule passed, the session would take place, if it didn't, it wouldn't.

Mr. SPRATT. You would have the original page 407 then?

Mr. ANDREWS. Yes.

Mr. SPRATT. OK. This applies to both entitlements and to discretionary spending?

Mr. ANDREWS. Correct.

Mr. SPRATT. The title of the bill refers only to rescissions. Are we talking about amendments—as I understand it here, we are only talking about amendments in the nature of rescissions, actually cutting something. A minute ago you used the word altered, reduced or abolished. So if you wanted to change an entitlement, so as to reduce it, for example, if you wanted to change the inflationary index for Social Security by which the COLA is determined from the CPI to some other index, you couldn't do this with this bill, could you?

Mr. ANDREWS. Oh, I disagree. I believe that this bill and the rule that accompanies it are broad enough to make in order any change in the underlying formula of any entitlement which would have the net effect of reducing outlays for that entitlement.

Mr. SPRATT. Well, that is more than a rescission. The title refers to rescissions. You would not only rescind one thing, you would legislate something else in its place, correct, which could be quite complex?

Mr. ANDREWS. That is correct. And Mr. Spratt, the reason for that, and your work on the Budget Committee, I think, has been ample evidence of this, is that the real way to get a grip in reducing spending is, frankly, not by abolishing this program or cutting that one. That is a good headline grabber, but it is not particularly effective. The way to do this is to change the underlying formula that funds certain programs, the building blocks of a program to make it run more efficiently and make it run smarter, and we think that that is the way to achieve—and I would again use—I am not sure if you were here when I talked about Mr. Zimmer's proposal to eventually eliminate the medical college for the Defense Department, but not do so in a way that is irrational or unfair. So that is why we have that feature.

Mr. SPRATT. We have had that amendment on the floor before sponsored by Mr. Sabo.

Mr. ANDREWS. We didn't have it this year. It was ruled out of order by the Rules Committee.

Mr. SPRATT. On the authorization bill or on the appropriation bill?

Mr. ANDREWS. Well, of course, it was ruled out of order on the authorization bill and on the appropriations bill. I assume it would not be protected against a point of order and would be struck down as legislating on an appropriations bill.

Mr. SPRATT. Well, all you could do then was cut the money to the bone to the point where it was effectively terminated.

Mr. ANDREWS. Yeah, you could do that, and I think that would be an irrational, an arbitrary and unfair way to do it. You know, what happened here is that instead of Mr. Zimmer's proposal, which I think is a very sensible, rational one, lots of folks would say you know, I would love to get rid of this program because I agree that it is extravagant, but it is not being done the right way, so I am going to vote, no, on your amendment. That happens around here all the time.

Mr. SPRATT. Is it your interpretation, is it the Parliamentarian's interpretation, then, that you not only have the authority to rescind this bill whose title says downward adjustments and rescissions also gives you the authority to legislate?

Mr. ANDREWS. I am certainly not free to speak for the Parliamentarian, but it is absolutely our intention, and it is my interpretation that the answer is, yes.

Mr. ZELIFF. I think we clarified that with the Parliamentarian. We went through the whole rule, everything, with him.

Mr. SPRATT. And the Parliamentarian, as you understand him, says that you can legislate COLAs, you can redefine disproportionate share, rules for Medicaid, hospitals, all of that.

Mr. ZELIFF. That is our understanding.

Mr. ANDREWS. Yes.

Mr. SPRATT. OK. Thank you very much.

Mr. CONYERS. Gentlemen, you have acquitted yourself with great distinction—

Mr. SPRATT. Mr. Chairman, could I ask one further question? Once you get through, could I?

Mr. CONYERS. And I want to congratulate you on presenting the proposal, joining us here at the hearings. We should have begun these hearings earlier, but now that we are here and are started, we are going to move them along as rapidly as we can. Fortunately, Bill Zeliff is a member of this committee, so he will help us expedite this as quickly as possible, you can both be assured. Mr. Spratt.

Mr. SPRATT. Just to follow up the request that I was pursuing with you, suppose that I had an amendment. Let's say I proposed to eliminate the Comanche helicopter; \$2.4 billion, let's say, is appropriated for the Comanche helicopter. I want to eliminate the Comanche helicopter, but at the same time take \$2 billion of the \$2.4 billion and put it in Head Start and Pell grants, so that there is still a downward reduction, \$400 million; I am still saving money, that is the net effect of it, that is what your bill says right here. Can't do that?

Mr. ANDREWS. My answer is, no.

Mr. ZELIFF. My answer is, no. Our understanding is that the money you save from the helicopter would eventually go to the bottom line. You can't direct to spend it in other programs.

Mr. SPRATT. Any amendment in order which would have the effect either directly or indirectly of reducing budget authority and that has that effect, it reduces it \$400 million. That is the net effect of it.

Mr. ANDREWS. Well, the clarifying rule I believe also speaks to that issue that we worked on with Mr. Stenholm, and if it is not, it is a clear intention, which could be made even more clear in the substitute, if you sign our petition and get the rule to the floor, is that nothing other than a reduction in spending is in order. There could be no net effect on the amendment.

Mr. SPRATT. Well, let me get back to my point then. If you then decided that you wanted to change the COLA for a particular program, you still provide for a substitute COLA, so that would be an increase in spending. You would decrease spending by eliminating one COLA, but turn around and increase it by adding back another COLA?

Mr. ANDREWS. No, unlike—here is the difference. Your first example is really three transactions. It decreases spending on the Comanche helicopter, and then it increases spending on Head Start and the other program that you used. The COLA is one transaction. The COLA formula changes would be a transaction that would change the underlying formula governing outlays for particular entitlement for this year and for the future. It is a unitary, budgetary transaction that would have the effect of a downward adjustment.

Mr. SPRATT. Suppose I said let's stick with the Apache helicopter, it costs a lot less money, so substitute 110 Apache helicopters for 110 Comanche helicopters. The net effect is a reduction in the budget.

Mr. ANDREWS. No, no, because that is a different transaction.

Mr. SPRATT. Pretty fine lines.

Mr. ANDREWS. Well, they are drawn around here all the time. And, you know, what I would suggest to you—Mr. Spratt's points are very well taken. They are very, very well taken, and I do not for a minute assume that there are parliamentary questions on each one of these proposals.

Mr. SPRATT. I am reading to you your own rule which says, the only two criteria, you have to print it 1 day ahead of time and it has to have the effect, directly or indirectly of reducing budget authority. None of this unitary, tertiary, whatever it may be is even—

Mr. ANDREWS. And, frankly, through the good work of Mr. Stenholm and Mr. Deal and others, many of their criticisms and constructive ones which were similar to yours, and we as a group met and reconciled them. For instance, the 1-day requirement I believe is now a 5-day requirement, and the unitary spending issue was also dealt with.

Let me say one other thing, too. I think this is awfully important, because I, too, am alarmed by the very complex difficult issues that would be dealt with in a relatively short period of debate time on the floor. I, by no means, mean to denigrate the efforts of Members during floor debate, but I do mean to acknowledge a phenomenon that I think we all would have to acknowledge, and that is that the way Members tend to deliberate on floor votes is to direct their staff to do an appropriate level of research, confer with their staff, confer with their colleagues, take advantage of every opportunity around the institution to learn about an issue, ask questions that they want to ask, make up their minds, and on their way from a committee markup, a hearing, a meeting with constituents, look at their card, see whether they decide to vote aye or no and go vote aye or no.

The thought that an insufficient period of floor debate is a critical flaw in this I think is inapposite. However, I can only offer this as a personal opinion without the immediate consent of our other 229 cosponsors, and that is that if the leadership would wish that the A-to-Z plan would go forward with a minimum of 4 hours of floor debate on each amendment, I would certainly welcome that change.

If the leadership feels there is a correct number for the fixed time of floor debate, I would certainly be willing to support that.

Mr. SPRATT. Thank you.

Mr. CONYERS. Thank you very much. We appreciate, again, Mr. Andrews and Mr. Zeff, your important contribution in these extensive hearings.

Mr. ANDREWS. Thank you very much for your time and patience at this late hour. Thank you.

Mr. ZELIFF. Thank you, Mr. Chairman.

Mr. CONYERS. OK, Bill. Come on back up here on the roster. We are going now to call Dennis Hastert, Bill Brewster, and Michael Crapo and Chet Edwards to the witness table and invite you gentlemen to add to our first day's discussion. We have been here all day listening to Members, and it is very important, since the budget reform process is going to involve the Members in the first instance.

Mr. Hastert, you are a member of this committee and have served with great distinction for a considerable period of time. Let me invite you to begin. All of your statements will be reproduced in their entirety in the record, as have all of the previous Members that have been to the witness table.

STATEMENT OF HON. J. DENNIS HASTERT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. HASTERT. Thank you, Mr. Chairman. I certainly appreciate your giving us this opportunity to present this piece of legislation to you. I understand that you have been in this room all day long and very diligently listening to a lot of different ideas. So with that in mind, what I will do is keep my testimony as brief as possible and open up to any questions.

Mr. Chairman, I am pleased to be here, as we have said, to testify on behalf of H.R. 4057. It is the Deficit Reduction Lockbox Act of 1994. I was very pleased to be an original cosponsor of this legislation. It is a bipartisan piece of legislation, and I am happy to see that nearly 140 of my colleagues on both sides of the aisle have already joined us as cosponsors.

H.R. 4057 would go a long way toward real budget process reform. Last year, when my good friend, Mike Crapo, introduced a bill he called, make our cuts count, I joined him as an original cosponsor in crafting this legislation. We identified a basic frustration with our budget process.

After just a few months in office, Mr. Crapo came to me and said, listen, I understand when we make these cuts, they are not really cuts, they just go back into the budget function and they are spent someplace else, and it was a great frustration. Well, the issue was, that is true, that our cuts don't count. The money supposedly saved by cuts in the budget is simply rerouted to other programs.

In the current system, cuts don't go to deficit reduction, they just go back to the coffers to finance someone else's wish lists or projects. We have all been discouraged in our efforts to make legitimate reductions in our budget deficit.

Congressman Crapo addressed this frustration by introducing H.R. 3145, make our cuts count, and that bill, Members, could designate cuts in spending to go directly to deficit reduction. However, shortly after we introduced H.R. 3145 last year, Congressman Chuck Schumer, Congressman Brewster, Congresswoman Jane Harman and Congressman Chet Edwards introduced their deficit reduction lockbox bill.

This piece of legislation addressed the same issue as make our cuts count. It lets Congress designate cuts in an appropriations bill to go into a lockbox so to speak. The funds in the lockbox would go directly toward deficit reduction. So we joined forces. Now, we have a bipartisan bill, H.R. 4057, the Deficit Reduction Lockbox Act of 1994.

Because of our joint efforts and bipartisan cooperation, support for H.R. 4057 is quickly gaining momentum, and as I mentioned earlier, we already have 138 cosponsors. There is widespread agreement among our colleagues that our legitimate efforts to decrease the budget deficit should result in real reductions.

Currently, there is no means of guaranteeing that when we have agreed to a cut in a program which is deemed unnecessary by the Congress, that money can be used to reduce the deficit. The deficit reduction lockbox provides the option of designated spending cuts to go directly to deficit reduction. When the Congress decides that a particular program no longer warrants the level of Federal support it has received in the past, and that money previously spent on that program could be better used to reduce the deficit, then that is where the money should go.

Mr. HASTERT. I think a good example before the House, as we speak, is the move to cut the space station from the appropriations bill. If that amendment is adopted, then that money still stays in that budget function.

My view was that it was the intent of the sponsors if that bill passes, we take that money to reduce the deficit. We have a tremendous deficit out there. We are paying interest on some \$4-plus trillion. The appropriations that we spend that we have the ability to deliberate on are only about one-third of the moneys we expend already. Interest rates are almost one-third of all the dollars we spend, and hopefully in the long term, we can reduce that deficit out there. Then there is more real money for us to do good things for people in this country.

I am of the conviction that we have to cut spending to reduce the deficit, but when we do cut spending, that money should go to reduce the deficit so we can reduce the interest rates, so ultimately when—I don't know if it is ever going to be in our lifetime, but when our children's representatives and our grandchildren's representatives are in this body, they can start to use the taxpayers' money for what it was intended for and that is good things for this country.

I am going to stop there and give my colleagues here time for testimony.

Thank you for your indulgence, Mr. Chairman.

Mr. CONYERS. Well, thank you very much. Chet Edwards of Texas is with us and we are delighted to hear next from you, sir.

STATEMENT OF HON. CHET EDWARDS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. EDWARDS. Thank you, Mr. Chairman. I also will be brief because you have been patient today on this very important issue.

If I could ask your permission, Representative Jane Harman, original cosponsor of this bill, could not be here and I would like to introduce her testimony into the record.

Mr. CONYERS. We would be delighted to accept it at this time. [The prepared statement of Ms. Harman follows:]

Testimony on Deficit Reduction Lock Box
July 29, 1994
Rep. Jane Harman

Mr. Chairman, the new Members came to Congress with the bipartisan goal of changing the way our government does business. The Deficit Reduction Lock Box is a simple, basic reform that will have a profound effect on the way that this Congress spends the people's money.

Our constituents elected us with the mission to make responsible spending choices and to ensure that bloated programs are cut to reduce the deficit. And the Freshman class has led the way on several of the major cuts we have made during the appropriations process.

Yet, my constituents are often flabbergasted to learn that when we cut a major program, like the Superconducting Super Collider, it has no impact on the budget of the relevant agency or the deficit. The cost of the Super Collider was simply reprogrammed in the Energy and Water Appropriations Bill, a result that negated the act of budget discipline by the Congress.

Not only does this process encourage the skepticism that Americans already have about the budget process, it also lets the appropriators be far less vigilant than they would otherwise be. Appropriators are often willing to fund projects that they know have only marginal support because they know, if these projects are cut on the Floor, the overall budget remains the same and they can always restore money in conference committees.

By allowing the Congress to place savings cuts into a Deficit Reduction Lock Box, we will not only produce greater spending reductions -- we will produce better appropriations bills

that have greater support in the Congress and the nation.

Mr. Chairman, the Deficit Reduction Lock Box is the kind of real, common-sense reform that our constituents expected when they voted for change. I urge this Committee to mark-up the Lock Box and send it to the Floor.

Thank you.

Mr. EDWARDS. Mr. Chairman, I want to thank you for holding this hearing. This is a day and age of reform. We have proposals for campaign finance reform, for perk reform, for parking reform, and quite frankly, I don't think any of those amount to a hill of beans when it comes to making the difference in the lives of citizens around this country. I think far more important than whether Members of Congress get parking spaces at National Airport is do we spend the taxpayers' money carefully and responsibly.

I don't know anybody in this Congress, conservative, moderate, liberal, from one part of our country to another who has worked harder on furthering Congress' credibility when it comes to spending programs than yourself. To me, your work to point out defense waste does more to protect the long-term integrity of our defense programs than anything any budget defense hawk could do.

Mr. CONYERS. Thank you very much.

Mr. EDWARDS. And those kind of efforts go a long way, more than these other reform debates, in preserving our credibility as an institution of government.

I am not for the A-Z program. I won't go into that, but I do strongly support the lock box bill, and just would briefly say for three reasons. One, I do think it would help reduce the deficit, and I see the deficit as essentially using future generation's credit card and we ought to have the integrity to pay for those programs that we believe in today, not use our children's and grandchildren's credit card and pass the bill on to them for spending that we enjoy today.

Second, the important point of credibility for Congress. I think we do lose credibility when we go back home, we say we voted to cut a program and then when the conference report comes back, lo and behold, a lot of other projects, some worthwhile, some not, have popped up in the conference reports.

I think that hurts the credibility of Congress and we just need to simply say, when the will of Congress has been expressed on the floor of the House or the Senate, then we will respect that, that will.

Finally, third, I would say the lock box bill would cause committees to think very carefully before they would add pure pork barrel projects or very, very narrow special interest projects, knowing that if those projects are cut on the floor of the House, that could lower the 602(b) allocations for that committee's jurisdiction.

For those reasons, I would ask for and would certainly appreciate your respectful consideration of this measure.

Thank you, Mr. Chairman.

Mr. CONYERS. Thanks, Chet Edwards, for a well-reasoned presentation. I appreciate that.

The gentleman from Oklahoma, Mr. Bill Brewster, is recognized and we welcome him to the Government Operations Committee hearing.

STATEMENT OF HON. BILL BREWSTER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OKLAHOMA

Mr. BREWSTER. Thank you, Mr. Chairman, and as everybody has noticed, the hour is late. I have been in committee all day, too. Our committee just finished a moment ago. I think as Mo Udall once

said, I think everything has been said, just not everybody has said it at this point. So let me point out just a couple of things and then we will move on.

But I think all of us know there are many competing plans out here right now on how this Nation needs to go about getting its deficit spending under control. I feel like ours is simple. It is to the point, it does very few things. Those few things are when an appropriation bill is brought up on the floor of the House, an amendment is passed making a cut within that bill, the money goes into deficit reduction lock box. It can only be used for deficit reduction.

One other exception would be if that amendment directed the money taken from one program and put into another program within that subcommittee, that is possible under our bill. But without it being directed to a particular point, the cut actually goes into the deficit reduction lock box. When the bill is passed, it locks it up.

That is what happens with the money. Most of us, since we have been here, have voted at numerous times for some kind of an amendment that made a cut in an appropriation bill, only to see that money reappear somewhere else at a later time, in conference or elsewhere.

So as I said, our bill is very straightforward. It does very few things, but it does them well, and I believe that it is a passable bill. I believe it is a workable bill. I don't think all the competing ones are and I would like to encourage the chairman and others on the committee to look with favor on 4057 and we would be glad to answer any questions when the time comes.

Mr. CONYERS. Thank you very much, Mr. Brewster. I notice we have been joined by my colleague, Chuck Schumer from the Judiciary Committee. Before we call on him, I would like to have the gentleman from Idaho, Mr. Michael Crapo make his presentation. I know you have worked on this measure for some time.

STATEMENT OF HON. MICHAEL D. CRAPO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IDAHO

Mr. CRAPO. Thank you, Mr. Chairman. Before I make my remarks, I would like to ask the Honorable Connie Morella, who is also one of the original cosponsors, could not be here and asked if I would obtain permission for her remarks to be made a part of the record.

Mr. CONYERS. Absolutely.

[The prepared statement of Mrs. Morella follows:]

Honorable Constance Morella
 Testimony on H.R. 4057
 Committee on Government Operations
 Subcommittee on Legislation and National Security
 June 29, 1994

Mr. Chairman, and members of the Subcommittee, thank you for giving me the opportunity to speak on behalf of H.R. 4057, The Deficit Reduction Lock Box Act.

Most of our constituents would be shocked to learn that, under our current system, amendments to cut spending actually have little impact on the budget deficit. Currently, funding cuts from a specific program are put back into the government's general fund, and there is no guarantee that these cuts will reduce our nation's deficit. This bill, which has strong bipartisan support, will force Congress to make responsible spending choices that reflect honest budgetary policy. H.R. 4057 is an important and smart approach to budgeting.

Our legislation would establish a Lock Box Account in each appropriations bill which would be dedicated to deficit reduction. When an amendment which curbs funding for a specific program is approved, the savings would automatically go into the bill's Lock Box Account unless the funds were designated to another program. Our bill would also allow Members to designate only a portion of the savings to another program while placing the remaining amount in the Lock Box Account. My colleagues and I seek these reforms in an attempt to bring truth to our budgetary process. It is time Congress reformed its spending procedures to make its cuts count while strengthening our representative democracy.

This legislation is endorsed by several national groups, including the U.S. Chamber of Commerce, Citizens against Government Waste, the National Taxpayers Union, and Citizens for a Sound Economy.

Real budgetary reform is the only way to change how our government does business. We must enforce new rules aimed at raising the accountability of this institution, and we must create opportunities to use our savings wisely. Our constituents expect us to make responsible spending choices and demand that, when we vote to cut spending, we create real rather than illusory results. I believe that the Deficit Reduction Lock Box Act of 1994 will not only help to reduce the deficit, but that it will create a more responsible and honest budgetary process.

Mr. CRAPO. Thank you, Mr. Chairman. I also will make my remarks brief, given the length of time you have spent today and the fact that my written remarks are going to be a part of the record, but I just wanted to indicate that I believe that this is one of the most significant budget reforms that Congress can enact.

When I came here this year, this term as a freshman, we debated for months over many different proposals to cut different programs, projects, or appropriations on appropriation bill after appropriation bill, and I can still remember, after many weeks of those debates, when it dawned on me as I was sitting on the floor that even when we were successful, that the money did not go to deficit reduction, it simply went back into the conference committee as a part of the allocation for that committee's—that subcommittee's allocation and was generally respent on other programs or projects.

In fact, to me the most clear example of this was I was watching the C-SPAN coverage of the debate over the SSC last year and as Members of Congress were debating the issue, they were debating as though the money were going to be going into deficit reduction if we voted against the SSC, and even the C-SPAN caption said something to the effect of this debate is over whether to support the SSC or whether to put the money into deficit reduction, yet the money was not going to go into deficit reduction under our current budgetary plans.

What we need to have and what this bill provides is an opportunity when both the House and the Senate both cut the same project, program or appropriation measure, that that cut is real and that the money that is reduced goes to deficit reduction rather than just the program going away or the money being moved into other spending projects.

I know that there are a number of competing approaches to this idea, and one of the strengths of this bill is that it stands separate and independent of other approaches. There are people on this panel who support and who oppose the A-Z bill. There are people on this panel who support and oppose other measures, but this one should be viewed as distinct, not as a substitute for or as an alternative for anything else.

It should be viewed on its merits. This measure has been under consideration in one of its forms for months, ever since last fall, and I don't believe should be viewed as a competing measure to other types of alternatives, rather as a separate and distinct proposal that is one of the most important budget reforms we could consider this year, and I thank you for your time.

[The prepared statement of Mr. Crapo follows:]

**THE HONORABLE MICHAEL D. CRAPO
BUDGET PROCESS REFORM TESTIMONY**

BEFORE THE HOUSE COMMITTEE ON GOVERNMENT OPERATIONS
Subcommittee on Legislation and National Security
Budget Process Reforms in H.R. 4057
"The Deficit Reduction Lock-Box Act"

Wednesday, June 29, 1994
Room 2154 Rayburn House Office Building

Thank you, Chairman (John) Conyers, Committee Ranking Member (Bill) Clinger, and Subcommittee Ranking Member (Al) McCandless, for giving me the opportunity to speak on behalf of a critical Budget process reform in the 103rd Congress. As you know, the nation finds itself saddled with ever more federal debt. If the debt were to be paid off today, some estimate that each person's share would be over \$17,000. Addressing this debt, and exploring ways of cutting this debt through budget process reform, has been one of my primary goals as a Member of Congress.

Today, I would like to speak on a budget process reform that is included in a bill which I am pleased to have engineered with my colleagues from both sides of the aisle: H.R. 4057, "Deficit Reduction Lock Box Act." This bill is currently before the Government Operations and Rules Committees.

Congress debates on numerous amendments that are designed to reduce spending for specific federal programs or agencies. Unfortunately, passage of these amendments does not guarantee or mandate real spending cuts.

We need to begin the process of bringing truth to the budget process and **MAKE OUR CUTS COUNT**. When Congress votes for cuts they should be just that --- **CUTS!** Only by finding a method to reduce the spending caps and the related subcommittee allocations will we be certain that spending cuts to appropriations bills will ever be realized. This is what H.R. 4057 addresses. And these spending cuts would be self-initiating, unless otherwise specifically designated or transferred.

Endorsing this legislation are several national groups including the U.S. Chamber of Commerce, Citizens Against Government Waste, the National Taxpayers Union, and Citizens for a Sound Economy. This bill has some 135 co-sponsors in the House of Representatives.

It should be stressed that this bill, originally introduced in March of this year, is a truly bi-partisan product that would lead the way to making discretionary cuts count.

As the sponsor of H.R. 3145, the original "Make Our Cuts Count" bill of last year, I have a strong interest in proposals to require appropriations bill cuts to be translated into actual budget reductions. Soon after I introduced H.R. 3145, a similar bill was introduced by Representatives Chuck Schumer (D-NY) and Bill Brewster (D-OK). Realizing that we had drafted coincidentally similar bills which were completely independent of each other's efforts, we decided to join together in creating what is now H.R. 4057. It incorporates major aspects of both bills.

Now that H.R. 4057 has 135 co-sponsors, it is more important than ever to gather additional support for this bill. H.R. 4057 must be considered as a **"stand-alone" budget process reform measure, and a first-step in passing other necessary budget process reforms.** It is an independent effort that does not seek to block other worthy budget process reforms. If anything, this budget process reform would complement other necessary efforts in this arena. Based on its proven bi-partisan in Congress since its introduction early this year, I feel it deserves its own vote on the House floor based on its own merits.

As I mentioned earlier in this testimony, the House and Senate do not save money when they vote against approval of a specific program. What this means is that the whole Congress has no way to cut discretionary spending without the cooperation of the committees that appropriate federal funds. Even when both Houses of Congress vote to defund a program, the committees that control appropriations are free to design new ways to spend the federal money that they control.

After repeated exhortations on the necessity for thrift in an age of deficit financing by, for example, the space station's political opponents, defenders like myself argued that its elimination is not going to give one penny of deficit reduction. The spending that has already been appropriated would merely be plowed back into other programs.

The Lock-Box bill is geared toward finally doing what we constantly tell the American people that we're supposedly doing. Many people think that when we vote to make cuts and when we have success, that cuts are actually going to take place. Under present law, these dollars are reallocated. This proposal would ensure that we can actually address the deficit, which the American people want us to do.

When Congress votes to cut federal spending but the Treasury doesn't really save any money, it harms both American taxpayers and representative democracy. Congress should reform spending procedures to make its cuts count. When it votes against federal spending, there should be a way to create opportunities for savings

that are both substantial and mandatory. That way, money would in effect be deposited in the federal treasury for deficit reduction, not just retreat a step back in the spending pipeline. Until Congress changes the way it approves federal spending so cuts can really count, even if rank-and-file Members vote to cut every program in the world, conference committees can simply reallocate the money.

Before the Congress can reform the nation's health care, welfare, and criminal justice systems it must first put its own house in order. Ensuring real spending cuts through this Lock-Box bill is a necessary first step in this process. Members of Congress must seriously consider listening to their constituents about spending cuts and place good government over the self-interest of specific projects by indicating their support for this Lock-Box Bill. Only through budget process reforms like this will Members be able to vote for cuts and be able to communicate the authenticity of these cuts honestly to the public.

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Mr. CONYERS. Thank you very much. We now turn to an unlikely member of this panel. One of the things we are anxious to find out is how the gentleman from New York ended up in this alliance, and so I am delighted to recognize Chuck Schumer, my comrade from Judiciary Committee with whom I worked on many subjects, including the crime bill.

Welcome to Government Operations.

STATEMENT OF HON. CHARLES E. SCHUMER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. SCHUMER. Thank you, Mr. Chairman, and it is a pleasure to testify before you. I know you have given leave that the entire statements be put into the record, so I will be brief because I know the committee has had a long day.

I don't consider myself a deficit hawk. I believe in an activist government that can be a positive force in people's lives and so I supported the President's 5-year reduction plan because I thought the deficit was out of control and I also supported his economic stimulus plan because we had tremendous needs which need Federal resources solve.

But this has been an issue that many of us—I know my colleague from Oklahoma, my colleague from Texas and I, this came about 1½ years ago at the Democratic issues conference when the three of us were just at lunch and we were discussing the problems in the appropriations process that has been outlined by my colleagues, and that is that we make cuts and those cuts don't go to deficit reduction, and should go to deficit reduction unless specified otherwise.

I have no problem with someone getting up and saying on the HUD bill, let's take \$2 billion out of the space station and put it into veterans programs, but if they are going to say let's just take \$2 billion out of the space station, it seems to me that as a mere—as a fact of honesty and accounting, that that ought to go to deficit reduction. That ought not to go to a small group that decides, well, OK, the Congress voted \$2 billion out of the space station, let's put it where we want to put it. So for me the No. 1 argument is honesty.

I don't support most of the cuts that come before the appropriations process, but I would like to see the ones where I do support them, that the money actually go to deficit reduction rather than go to some unspecified area of spending all over the lot. I think that is very, very important.

The second point I would make is that I think that many Members feel that way, and there are many that do that span the political spectrum, and they ought to be given a way to do it that doesn't wreck the whole committee process. I oppose A-Z. I think A-Z is reckless, frankly. I don't think the lock box is reckless.

I think it is consummate with the committee process, but let the floor of the House have its proper will when there is the will to vote cuts. And the final thing I would say is, that one of the things that bothers people about the appropriations process in this House is that lots of little things appear that you don't know where they came from, and in fact a lot of the debate we have been having this week and last week is not aimed at the big programs.

I think it is a lot harder to cut some of the big programs, and if you look at the record the last 1½ weeks, money that says let's cut WIC or let's cut all of public broadcasting, two programs that are not the most popular, but that are in the big range, fail big, but programs that say let's cut \$2 million tend to succeed.

The lock box concept would encourage people aiming their cuts at the parts of the appropriation process, in my judgment, that don't do credit to this House, that don't do credit to how we ought to wisely spend our dollars and in fact for the amount of dollars that are spent on those, they bring such negative feelings about spending in general that people like yourself and myself, Mr. Chairman, who basically believe in spending for a proper purpose, get hurt across the board.

So my view is that this is rational and carefully thought-out reform. It does not do harm to the committee process. It does not do harm to the basic concept for people who believe that there ought to be—an activist government.

But at the same time, it brings honesty to the process and at the same time allows Members who want to make cuts to see that those cuts are actually made as opposed to a vote on the floor and then somehow magically the money appears back somewhere else, either to do the same, similar or even a different thing. So that is how I—answer your question. That is how I became a member of this coalition.

Mr. CONYERS. That is a very—

Mr. SCHUMER. Much to the chagrin of one of my roommates who is a cardinal on the Appropriations Committee and has been giving me unmitigated gas.

Mr. CONYERS. Well, a number of people are looking to you for this discussion and I am glad you made it on the record because you can refer them to your testimony here and make it short: Here are a couple of the problems that I think we have to be clear on because I think the sentiment is noble. I think it is an honest proposal. I think honesty is very important here, but the will of the House in cutting appropriated items when we go to House-Senate conferences raise a very important procedural question.

We make a cut, we go to conference and conferees don't always win and we come back with a different figure. Does the fact that the conference figure contradict what we did in the House work any harm to the concept?

Mr. BREWSTER. Mr. Chairman, the way it is structured, if the Senate appropriated one number, the House appropriated another number, it would have to fall between those two. If in ours we cut \$50 billion out of who knows what, defense, and they cut \$10 billion out, the numbers would have to—in the conference bill would have to be between the two numbers. It could not exceed the larger of the two numbers.

Mr. CONYERS. Well, doesn't that harm the conference process, and what we have done is implied that the Senate will now have to cooperate with our concept.

Mr. BREWSTER. No, sir. If the Senate number is higher, it can be above the House number, it just can't exceed the Senate number.

Mr. SCHUMER. So if the gentleman would yield, if the House had a \$200 million figure and the Senate had a \$300 million figure, you

would have to be somewhere between \$200 million and \$300 million, which is what the conference was always supposed to be. When I came here, I was surprised that they could go to either \$400 million or \$100 million outside the bounds of either House.

The only other point I would make is, if this becomes law, it will govern the Senate as well, so they will be operating, and many of us have sort of bridled at the fact we do things in the House, then the Senate doesn't do them. They spend much more than we do on things and it goes back to the Senate.

Now there will be the opportunity, if the Senate does what it tends to do far more than we do in the House, vote to cut on the floor and then not do the cuts in conference, they would be disciplined in the same way that we would be disciplined.

Mr. CONYERS. Very good. Do you feel that—the lock box proposal always has a ratcheting downward effect and is going to throw into disequilibrium many of the programs, because every time something is cut, this has a sort of permanency that won't let it go any other way but down, and it seems to me that this may, in the end, create a very difficult process in the House.

Dennis.

Mr. HASTERT. Mr. Chairman, let's take the SSC for an example. When the SSC was cut, at least most of it was taken off the budget. I think most people had it in their minds that we could take that money and use it for deficit reduction. What happened when that money was cut is that it was redistributed to other areas, and the good intentions of people that that money should go to deficit reduction, didn't happen. I think what we are trying to say is that when the Senate does make those cuts, then that cut should go for what most people thought it was intended for, and that is to reduce the deficit.

Mr. CRAPO. Would the gentleman yield?

Mr. HASTERT. Be happy to yield.

Mr. CRAPO. I would like to add one more parameter there, it goes back to the earlier question as well. That is, that I think that the chairman's question also strikes at the situation that could occur if the House were to cut, say, \$200 million out of a program and the Senate were not to cut anything out of the program. So we would have a range of zero to \$200 million, and in that circumstance, the conference committee is free to choose zero.

They could choose between zero and \$200 million if I understand. But it would be a decision made in the conference committee. It would be a decision that would then have to be sent back to both the House and the Senate for their vote, and both would have to confirm that decision, but it wouldn't necessarily force a ratcheting down if one of the bodies chose not to go along with the proposal to cut that program.

Mr. EDWARDS. Mr. Chairman, if I could also clarify one final point, I would like to differentiate our lock box bill with some other Members who have introduced a subsequent lock box bill. Their approach affecting the budget process would actually affect out year 602(b) allocation levels. Our bill would not do that. Our bill impacts the year at hand and not the out years.

Mr. CONYERS. Let me try this approach. Once approved by the House, the proceeds of the lock box could not be modified in conference, is that true?

Mr. SCHUMER. No.

Mr. CRAPO. No, Mr. Chairman. Let me try at that. Once the House has made a cut, let's again say \$200 million, then the Senate has a shot at the same budget and the Senate picks a figure, anywhere from zero to the entirety of the project. Once the Senate has picked a figure, then you have two figures and they form the parameters of what is in the lock box, and then that cannot be violated. The House—neither—the conference committee cannot go lower or higher than those two figures, but they must be in between those two figures.

Mr. SCHUMER. Which if the gentleman would yield, was how it was always supposed to be. I mean, as I understand it, 20, 30 years ago, that is always what conferences were. Somehow, I don't know when, but we got off—we got this idea that you could go either below or above it, sort of like authorizing on an appropriation. We never used to do it, now it is sort of done routinely. I think neither of those make sense and they both take away power from the authorizing committees.

Mr. CONYERS. Let me try a final question. The portion of the budget devoted to discretionary has been decreasing in recent years. Discretionary spending is about 6.5 percent of the GDP and the lowest level for discretionary spending that has occurred in 45 years, yet the lock box proposal will only clamp down further on discretionary spending.

Does this raise any questions of public policy?

Mr. HASTERT. Mr. Chairman, if I could start out and try to frame this in my opening comments a little bit. One of the reasons that we are being squeezed down in discretionary spending is because if we have a \$4 trillion indebtedness out there that we are paying interest on, that debt starts to swallow us up.

We think it is important, when we want to take and put money against that deficit, against the debt, that we eventually, if we are religious in doing so, consistent in doing so, then all of a sudden we don't spend as much money on interest and some of that money is really freed up for the real appropriation process. But we have adhered to a discipline that when we do a cut those dollars really go for deficit reduction, so ultimately we are not paying those huge amounts of interest. We free up some of that interest for real spending.

Mr. CONYERS. So you want it to go down further? Even though discretionary spending is going down, you want it to go down more with lock box?

Mr. HASTERT. Not really. I am saying that when people—when this Congress collectively, on a bipartisan basis, reduces the amount of spending, because they think it is the right thing to do, that savings ought to go to reduce the debt, the deficit. Ultimately, when you start to squeeze down that deficit, we are not spending as much interest on the deficit and real dollars are there to be spent.

Now, that is over a long period of time, but the effort to move down, to squeeze down spending, those savings should be savings, not another way to spend money.

Mr. CONYERS. Mr. Brewster.

Mr. BREWSTER. Mr. Chairman, I happen to be one who would like to see more money in discretionary. I believe strongly in educating our youth. I believe strongly in many of the programs in this country, but we must get some control out of here.

When we make a cut in a particular program, that money could very easily in the future go back to discretionary spending. We don't affect out years in ours. We are talking about a one-time deal. When the majority of our House agrees on a subject, that is what it is going to be in the lock box.

Now, it doesn't affect the conference. If the Senate has \$200 million and we have zero, the conference could just as easily pick \$200 million. But I am certainly one who would like to see more dollars in discretionary spending. I would like to see more dollars in programs for people.

We are paying 15 percent of the total dollars of our budget on interest and if we don't do some things now on the things that we can agree on cutting, we will never be able to properly finance the things that we should be in this Nation.

Mr. CONYERS. Thank you very much. Chet.

Mr. EDWARDS. Mr. Chairman, just very briefly. I don't believe we can come close to balancing the budget by cutting discretionary spending more deeply. But I do think it is the small discretionary programs that give us the greatest credibility problems.

It is the Lawrence Welks homes that get added in after midnight in a conference committee somewhere, a program that maybe most of us never even knew was in a bill, then we vote on the conference report. We take responsibility for that.

You worked, as I said earlier, you worked very hard to give this institution credibility. So while the numbers may not be big on some of these cuts, I think it would greatly enhance our credibility, and furthermore, then help protect the integrity of the welfare programs that are needed, the education programs that are needed, the housing programs that are needed.

Mr. CONYERS. Chuck Schumer.

Mr. SCHUMER. Yes, I would like to underscore that. When we came up with this, it was long before A-Z or anything like that. We just sort of—we tried to get this in the budget last year, as you may remember, and we had less success seemingly than we are having this year, but Chet's point is really well taken. You read things like the Wall Street Journal.

What they use to buttress A-Z and to buttress all this is not WIC or chapter I or NEA—well, maybe they use NEA a little bit because of a few of these things. It is these little higgledy-piggledy things that make it much harder to defend—you know, discretionary spending is still more than a third of the budget, defense and nondefense, and it makes it impossible—they say we need A-Z for those things, and then it is going to be—the result will be hurting the kind of programs, particularly urban programs I think that we defend.

Well, I think we have to come clean. I think we have to provide the whole House a way of cleansing, if you will, the appropriations process in certain ways, and this is to me a fair way to do it.

Mr. CONYERS. What do you think of those who say we can have both, that we should have both A-Z and lock box and some have even added H.R. 4434 which deals with baseline reform, expedited rescission, limitation of emergency designation.

Mr. SCHUMER. Well, if I might answer that, we have different views across our spectrum here. I am opposed to A-Z. I think what A-Z did is it took a good concept like the lock box and then decided to just run rough shod over the whole committee process.

The A-Z people shouldn't have a Congress. They should have a plebiscite where every person gets to vote on each program. What we would end up getting then is real gridlock.

We have a committee process because, frankly, Mr. Spratt knows more about defense than I do and I may know more about housing than he does, and that is a good way. Now, the floor can modify it and temperate it and maybe the balance should be a little more so the floor has some say, hence the lock box, but the idea of passing over the floor—over the committee completely, to me, is truly wrong and will lead to more wild and crazy spending in a nonrational way.

So I don't think they are complementary. I think they are different. I think one, again, is respectful of the committee process, albeit modifying it, the lock box one just runs rough shod over it. That is why I can't support A-Z.

Mr. CONYERS. Any other comments?

Mr. BREWSTER. Mr. Chairman, as you know, I don't agree with the gentleman from New York on guns. I do agree with him on this issue, and this issue, we aren't talking about budgetary process, we are not talking about disrupting the committee process. We are talking about a single vote on a single bill at a time and the money going to a specific place.

I don't support the A-Z approach. I don't support any of the others or—nor do I see this as a complement to the others. I see this as a stand-alone issue. Now, that is not to say that if this becomes law in 3 years down the road there may need something else to be added, but at this point in time, I think this corrects the majority of what I see is the problem in this body, and this is what I am supporting, and what I would certainly hope would be possible to do and make this Congress a better place.

Mr. CONYERS. Dennis.

Mr. HASTERT. Thank you, Mr. Chairman. I think they are individual issues. I think they are all issues that this Congress and this body in its own deliberative way, own individual and collective conscience has to make a decision on. I don't think they are complementary. I think they stand as individual issues, and I happen to support A to Z. That is my own view.

I think it is a different issue altogether, but I think this is something which is part of the process, the appropriation process, that we ought to bring credibility when we do make cuts to projects and people in their intentions and their good conscience think that those cuts should go for deficit reduction.

It never happens, and I think this should stand alone or it should be looked at and it should go through the process. Now, people who are pushing A to Z have chosen a different way. They have chosen the discharge petition. I guess the body will look at it in that way, but you know, I think it stands as an independent issue. They are not hooked or tied in any way. I think that is how we should look at them.

Mr. CONYERS. Yes, Mr. Crapo.

Mr. CRAPO. Mr. Chairman, I would just like to echo those comments. I think, again, to repeat what I said earlier, one of the strengths of this piece of legislation is that it does stand alone. It is separate and distinct from other measures and should be perceived that way, and as has been commented here, you see the breadth of difference in political philosophy among those who are sitting here at this table on the panel supporting this proposal. It indicates that this is something that is a process-oriented proposal that is designed to bring fairness and openness and honestly to the budget process, and I would hate to see this get caught up in the politics of any other issue.

I think that this is an issue that we have all started out on our separate roads with long ago. We have now been able to come together in a coalition. We have now been able to get a hearing, and one of my strongest hopes is that this issue does not get mixed in with any other issues and is perceived on its own with its own merits.

Mr. CONYERS. Well, we plan to hold our hearings separating these out so that the witnesses will be coming up on a bill and it won't be just some sort of a catch-all budget reform hearing where everything in the kitchen sink is going to be in order. We will respect the differences that have brought us to this point.

Yes, Chet.

Mr. EDWARDS. Mr. Chairman, I am not a supporter of A to Z. I think if it had not been for Mr. Zeliff, Mr. Andrews perhaps, there wouldn't be as much public attention to the budget process reform, so I appreciate what they have done, but I would like to say in a very respectful way, in an objective observation, I guess, that there are many of us that want budget reform, feel strongly about it.

Our districts feel strongly about it, and I think the practical fact is that if we don't see some movement on what I think are more responsible budget reforms, such as this lock box, then I think there is going to be tremendous pressure for additional Members to sign on to the A-to-Z bill. Please understand, I am not trying to in any inappropriate way pressure you or this committee to vote any other way than you normally would, but I do think it is fair to say there are 10 to 20 members of the Democratic caucus that feel we have to have some sort of reform. That alone isn't reason to pass lock box, but when you consider it respects the committee process, it is a responsible approach, I think it would help this Congress and the country to try to pass this legislation rather than take the risk of A-to-Z discharge passing and bypassing the committee process going directly to the floor.

Mr. CONYERS. The chair recognizes the gentleman from South Carolina, Mr. Spratt.

Mr. SPRATT. Thank you very much, Mr. Chairman. A question we have been pursuing with other witnesses today is when does the cut become binding on the House and what are the brackets?

Mr. BREWSTER. The cuts become binding, Mr. Spratt, at the time the bill passes.

Mr. SPRATT. Passes the House or passes the Congress and is enacted into law?

Mr. BREWSTER. The cuts are binding to the conference as a bottom parameter or as a top parameter if we are above the Senate.

Mr. SPRATT. Let me give you an example which Jack Murtha gave us in his testimony. Let's assume that the Senate in its wisdom kills the F-22 and saves \$3 billion. And the House in its wisdom kills the C-17 and saves \$3 billion. Now, what are the brackets? Is it \$3 billion? Is it each, or—

Mr. BREWSTER. The brackets, Mr. Spratt, are whatever the top number and the bottom number are in the two committees. If the House had \$3 billion in C-17 and the Senate had zero, those are the two parameters.

Mr. SPRATT. On that program then. You can only bracket as to a particular program?

Mr. BREWSTER. On a particular program.

Mr. SPRATT. I don't read the bill this way. It sounds to me like all those cuts are fungible. They go as dollar cuts into this trust account, but what you are saying is it has to be identified to a particular program, project or activity. If the House-Senate is zero and the House is \$22 billion, then the bracket is \$2 billion.

Mr. BREWSTER. That is right, because normally a cut is on a particular program. Most amendments to the appropriation bills, as you know, are on a particular program. The cuts would be—the brackets would be whatever the House and Senate had on those.

If, on the other hand, the Senate had \$3 billion in F-22 and the House had zero, that would be the brackets there.

Mr. SCHUMER. But—right, the gentleman is correct, but you would have to, and I think this is what Mr. Murtha is getting at and this is a value choice that would have to be made. The House has lowered the allocation, the 602(b) allocation by \$3 billion, the Senate has lowered it by \$3 billion and overall they have to lower it by \$3 billion. They couldn't raise it back to the old number. They could put all of it in one, all of it.

Mr. SPRATT. You are saying two different things because Mr. Brewster is saying if the Senate acted on the F-22 and the House acted on the C-17, if one was zero, then you would have a bracket of zero to \$3 billion on the C-17 and zero to \$3 billion on the F-22.

Mr. SCHUMER. Correct. That is correct, but you have a third—he is right about that, you could fully fund the one or fully fund the other, or fully fund both, but you would—your third parameter is you couldn't go higher than the overall 602(b) allocation of either the House or the Senate. So in that example, the Senate and House have each cut \$3 billion from the allocation and somewhere in the defense budget you would have to—in the defense budget, you would have to find a \$3 billion cut.

Mr. SPRATT. Mr. Hastert disagrees with you.

Mr. HASTERT. My understanding is if you cut the F-22, that is a conferencable issue.

Mr. SPRATT. Between zero and \$3 billion.

Mr. HASTERT. Right, and the lock box is between—if the bill leaves the House and goes to the Senate, there is a \$3 billion lock box. If the Senate goes to zero cuts, then they could go to zero, they could go for a \$3 billion—or \$2 billion or anything we said, or anywhere in between. Then the next issue is another conferencable issue.

Mr. SPRATT. I know, but—

Mr. HASTERT. There is a disagreement.

Mr. SPRATT. He seems to be saying that if both Houses put \$2 billion in the lock box—\$3 billion in the lock box, then the conferees have to come back with \$3 billion in cuts.

Mr. SCHUMER. Somewhere. In other words, if the overall—yes. If the overall cut of the defense budget from what came on the floor was \$4 billion in the House and \$7 billion in the Senate, the conference would have to come back with a cut somewhere between \$4 billion and \$7 billion.

Mr. SPRATT. Even if there was a total dissimilarity of programs.

Mr. SCHUMER. Correct. Otherwise what happens, Mr. Spratt, is the kind of thing that we think is no good, which is that each House cuts a separate thing and then the budget comes back higher than either of them.

Mr. SPRATT. Is there agreement with that? Mr. Hastert, do you disagree with that?

Mr. HASTERT. My understanding is a conferencable issue is a specific issue. It is the F-22 or it is an aircraft carrier, and that is what the issue decides. That is where the lock box is. The point is that if the Senate cuts and the House cuts on that issue, that money, those savings are reserved and they go for deficit reduction and not spread someplace else. That is the point of this legislation.

Mr. SPRATT. This doesn't speak to 602(b), so I suppose if the lock box reduction is on a particular bill, it stays out of that particular—and you don't have to care for carry-over problems. Because Stenholm has a different problem because the question is whether or not the committee can sit in judgment on the—

Mr. HASTERT. Only for this 1 year.

Mr. SPRATT. Yes. Would there be a procession at all for reversing? Suppose someone thought better of it. I guess you then would have to—and everyone agreed, we have made a hell of a mistake here. We have tied the budget into a Gordian Knot. We want to undo this thing.

Mr. SCHUMER. You would have to go to the floor and amend the Budget Act in the way you would now. You could make that same mistake in the Budget Act, too.

Mr. SPRATT. What you are effectively doing is waiving the germaneness rule as it applies to an amendment to the appropriations bill?

Ordinarily, if you went to the floor and offered an amendment like this to an appropriations bill, the Parliamentarian would say, you can't amend the Budget Act through the appropriations bill, it is not germane to the appropriations bill?

Mr. SCHUMER. I think—I don't know if that has ever come up because—

Mr. SPRATT. It did come up once when I was presiding and that is the only reason it comes to mind. I may be wrong by my recollection.

Mr. SCHUMER. In other words, somebody came to the floor and said I not only want to amend the appropriation, but I want to amend the Budget Act as well, correct?

Mr. SPRATT. Yes.

Mr. SCHUMER. We would be changing that. We wouldn't be abolishing the whole germaneness rule. In fact, one of the things I would want to do—on the Budget Act, per se, yes, I think that is what will work.

Mr. SPRATT. Do you think there ought to be reciprocity, so if someone has a meritorious program desperately needed he could offer an amendment to increase spending and also increase the budget ceiling at the same time, the 601(a) allocation?

Mr. SCHUMER. From my point of view, if they find a consummate cut somewhere else, yes, yes. We don't do that because that is another rule you would have to get, but I believe that I would be for that. In fact, Mr. Spratt, I would have gone so far, my colleagues didn't agree with me and a lot of other people, I would have let them go beyond the 602(b)s.

If you wanted to say you should cut a program in HUD VA and increase a program in HHS, I would let them do that. I think that is how the floor should work its will. I think these are artificial constraints but we are not trying to change the whole process. That would have really driven the Appropriations Committee absolutely crazy.

Mr. SPRATT. We have got another slate of witnesses. I have got another question. We will talk to you privately about it.

Mr. CONYERS. Bill Zeliff.

Mr. ZELIFF. I am just going to be very brief. Mr. Schumer, did you use the committee process in your crime bill?

Mr. SCHUMER. Yes, I sure did.

Mr. ZELIFF. You didn't bypass it in any way?

Mr. SCHUMER. Well, the trust fund, some might say, used the committee process too much so. We bypassed the Appropriations Committee. It was similar to the idea of a lock box.

Mr. ZELIFF. I just threw that idea out for fun.

Mr. SCHUMER. No, no. I think they are consummate, and in fact in the lock box, we are saying that the Appropriations Committee can't rearrange things once the Congress has voted on it. It is the same exact concept.

Mr. ZELIFF. I just want to compliment you all on a great idea, and I think A to Z equally is a great idea. I think any time that we are in a process where we have \$4.7 trillion debt, the next 5 years we are going to see that raise another trillion dollars, any time we have a process that we have 200 and I guess \$12 billion worth of interest in year and it is going to project—continue along the same grade level as our deficit, we can't really put it to the bank, for example, and ask for more money.

Anybody answering that question would be crazy to give us more money under those conditions. We have got to turn things around

and I think we have got to start looking at new ideas to do that and I think certainly the lock box idea is one that is well worth—the idea, the new idea, that we ought to, one of many, including the A to Z again, and I will tell you, I think it is such a good idea, that, Mr. Chairman, I will make this statement, that I have heard a lot of testimony today, that I am going to be on that bill tomorrow morning, first thing, and I encourage Mr. Schumer, Mr. Edwards and Mr.——

Mr. SCHUMER. But you were not going to change it to A to Z. Our bill is B to S, Brewster to Schumer.

Mr. ZELIFF. Mr. Schumer, are you going to join? Mr. Schumer, did I hear you write? Can we put you down?

Mr. CONYERS. No solicitation.

Mr. SCHUMER. I said you are not going to call our bill A to Z even if you are on it. We are calling ours B to S.

Mr. ZELIFF. I am only suggesting that you and Mr. Edwards and Mr. Brewster join the wisdom and the commitment of your colleagues, Mr. Hastert and Mr. Crapo, who are on the A to Z, but either way, and again, whether they are complementary or just plain good ideas, we have got to do something different and it is about time, that we are all willing to take the risk and we have got to look at entitlements. We have got to stop playing games. We have got to stop in terms of earthquake aid bills and tacking a whole bunch of garbage on it, not paying for bills and passing it on to future generations, things like supercollider and taking the money and playing games with people back home thinking we are really saving money but actually spending it and recycling it in new Federal dollars is crazy. So I just—I think that is the extent of it. I certainly agree with your concept and will support it and I thank you, Mr. Chairman.

Mr. CONYERS. You are not taking any chances, are you?

Mr. BREWSTER. Mr. Chairman.

Mr. ZELIFF. I had a chance. I think there are three guys here, along with Mr. Spratt, that might be partners and I don't want to do anything to change that.

Mr. BREWSTER. Mr. Chairman, before Mr. Spratt gets away, I would like to correct a point here. You made a point awhile ago, could a person, if they had this great and wonderful program out there, bring an amendment to the floor and put money in it out of the lock box? The answer is they can, because this account operates in the bill just like any other account.

Once the bill is passed, however, it is—the money is in the lock box, but as you know, this time we have had some appropriation bills that hung around out there for weeks, and while money may be cut early on and it would go to a particular point, if in the wisdom of the House somebody can bring an amendment to put money in a particular program, until such time as the bill passes, that could be done.

The other thing, Mr. Zeliff, what you mentioned on the supercollider is one of the very reasons why our program works. It is very simple and we would certainly like to have your coauthorship.

Mr. ZELIFF. I think I already said I was going to do that.

Mr. BREWSTER. You are a good man.

Mr. ZELIFF. Unless you change my mind. Would you consider—no.

Mr. CONYERS. Gentlemen, let's stay in touch regarding any witnesses that you might want to testify, because we are going to have more hearings on this. As the leaders of this measure, you have others you want to refer to us outside of the Congress and we would be happy to entertain them as future witnesses.

Thank you very much for your contribution.

Mr. BREWSTER. Thank you, Mr. Chairman.

Mr. CONYERS. You are welcome. We will next hear from Chris Cox, member of the committee, whose measure, H.R. 2929, would require a joint budget resolution which must be signed into law, prohibits baseline adjustments and requires support of two-thirds of the Members of both Houses to spend in excess of budget levels.

Welcome to the committee and we are delighted to hear you give us any additional details of your measure. Your full statement will be replicated in the hearings record in its entirety.

STATEMENT OF HON. CHRISTOPHER COX, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. Cox. I thank you very much, Mr. Chairman, and I am delighted to be here. I admire your stamina. This hearing, as I understand it, started at 11 a.m. It is now 9½ hours later and you are still here, so there isn't any doubt about the committee's commitment to considering seriously proposals for budget reform. It is a very core part of our jurisdiction and it is also a very core issue for the American people right now.

Senator Shelby, Senator Lott, and Congressman Stenholm, who testified here earlier, all send their regards and their testimony for inclusion in the record. I will not refer to that testimony directly, but each of them—and I know that Congressman Stenholm spoke briefly about H.R. 2929 during his earlier testimony—each of them wanted very much to be here. Given the schedule, it was a little tough to get all four of us here.

Mr. CONYERS. We welcome their statements into the record.

[The prepared statement of Mr. Shelby follows:]

STATEMENT OF SENATOR RICHARD SHELBY
SUBMITTED TO
THE SUBCOMMITTEE ON LEGISLATION AND NATIONAL SECURITY OF THE
HOUSE GOVERNMENT OPERATIONS COMMITTEE
JUNE 29, 1994

I thank the Chairman for the opportunity to submit my comments on budget process reform to the Committee today. I was pleased to join Senator Lott in sponsoring Congressman Cox's Budget Process Reform Act in the Senate and appreciate the chance to speak in support of the bill today.

I have long been concerned with not only how much Congress spends each year, but also with the way Congress spends federal dollars. Over the years, several attempts have been made to address the first problem--how much--but few have sought to reform the second--the process by which we go about spending federal dollars. And, I believe, it is only by reforming the process by which we spend that we will ever be able to gain effective control over Congress's excessive spending habits.

Next year, we will pay close to 300 billion dollars just on interest on the debt or about 1/5th of our budget for 1995. Because we will spend so much of our budget just financing our national debt, it is apparent that we are not effectively addressing our chronic deficit and national debt problems.

Although "deficit reduction" was the justification for last year's tax bill which raised over 230 billion dollars in new taxes, federal spending is scheduled to increase from around 1.5 trillion to over 1.8 trillion by the year 1998. So at the same time Congress was raising new taxes, it was also increasing spending.

Most legitimate spending cut proposals have met with relatively little success in both the House and Senate, and those spending cut proposals that have achieved any modicum of success have usually had nothing to do with actually lowering spending or the deficit, but instead only authorized a shift in spending. Without lowering the spending caps, spending cut proposals represent nothing more than a reconfiguration of federal spending priorities.

In light of these experiences, it has become increasingly clear that our chronic deficit and mounting debt are a result of Congress's institutional spending practices. They reflect a weakness for greater spending; and only by changing how Congress spends money, the process by which it spends federal dollars--can we positively affect our long-term deficit and debt future.

Our annual budget process lies at the core of our spending problems. Our current budget process favors increased federal

spending, is impotent in enforcing current budget ceilings, and remains hostile to cuts in federal programs. In short, the budget process itself is impervious to efforts to cut the federal deficit and balance the budget.

Thus far, Congress has sought simple, politically expedient remedies to its complex fiscal ailments. Without the institutional capability and resolve necessary to cut spending levels and reel in the growth of federal spending, significant "deficit reduction" will remain illusive.

Earlier this Congress, Senator Lott and I joined the efforts of Representative Cox in offering a budgetary framework that is receptive to curbing federal spending and balancing the budget. The Budget Process Reform Act would reform the process to provide greater budget discipline and stronger budget enforcement mechanisms.

Specifically, the Act would require that a legally binding budget resolution be in place prior to the consideration of any appropriations or authorization bills. Such a budget would fit on one page, setting aggregate spending totals for each of 19 spending categories.

The Act would eliminate baseline budgeting and require that all entitlements, excepting Social Security and interest on the debt are given fixed-sum appropriations. In addition, in order to have effective enforcement, the bill would require a three-fifths vote to spend over-budget and would grant the President enhanced rescission authority when a budget category exceeds its allowable spending level.

Mr. Chairman, this is effective legislation. It establishes a process for spending federal dollars that imposes discipline and order while providing the flexibility to prioritize federal spending without draconian measures such as across-the-board cuts or unlimited line-item veto authority.

It is imperative, I believe, that we change how we spend federal dollars if we are ever to retake control of our budget and ultimately, our economic future. The Budget Process Reform Act would help us do that and it is my hope that more of our colleagues in both the House and Senate join us in our effort to see that it does.

#

Mr. Cox. We now have 181 sponsors in the House comprising a significant chunk of Democrats, as well as Republicans, as you can tell by the sponsorship in the Senate. The bill over there is bipartisan, as well.

I say that because I started out working on this on the Republican side. I first put together mostly Republican sponsors and then went across the aisle to begin to work with my Democratic colleagues. The consequence of that is that we have more Republicans than Democrats for no real reason other than the sequence of events.

I want to stress that because the way Congress works, my smile and handshake on the floor aren't enough to get Democrats to jump on a bill that I have written. It will require Democrats to champion the cause and sell it to other Democrats if we are going to get a bipartisan majority. But the reason that is likely in the case of this bill is that unlike most of the other sweeping proposals that deal with the big ticket issue of deficit spending, our \$200 billion annual deficit this bill doesn't tinker with numbers. It doesn't have any caps.

It doesn't have any preference for one kind of spending over another. It doesn't tell us to balance the budget. It doesn't do anything that can be considered political in that sense. It doesn't put the thumb on the scale in behalf of guns or butter.

In fact, it is utterly consistent with this bill that Congress could, by majority vote, double the amount of Federal spending next year from this year. Nonetheless, even though Congress retains its full authority to do this, the procedures make that result less likely, and make budget discipline and an organized spending process more likely.

The reason is that the current system is really a nonsystem. Replacing it with one that works can have a dramatic impact on the outcome. A lot of people argue whether process matters at all. I am sure after listening for 9 hours, you are convinced, if you weren't before, that process does matter.

But we have heard in debates on the floor that what is really required is courage. We have got to make the tough choices. We have got to swallow castor oil and until we are willing to self-immolate, these problems won't be fixed. My view is just the opposite.

It is that if our salvation requires every single Member of Congress to act against his or her constituents interest, we are going to fail. We must have a process that indulges the predilections and influences and incentives already operating for political reasons and constitutional reasons on individual Members—and which nonetheless comes up with a better result. And that is what the Budget Process Reform Act does.

We have first got to ask ourselves what we expect of a budget. It is worth taking out a blank sheet of paper and drawing up that list, what should our budget do? Why do we want to have a budget? Is it worthwhile? I know that our new chairman of the Appropriations Committee argued earlier today that we shouldn't even have a Budget Committee and that we don't need this function. But if we are going to have it, what can it do to help us?

A budget process that works should do the following. First it ought to be clear and understandable.

Right now not only the American people, but many Members of Congress are mystified by our budget process. They don't know what 302(b) allocations are, how the current services baseline works, or the purpose of undistributed offsetting receipts. A lot of the budget process has the direct and intended effect of mystification. Therefore, at least the public, if not many Members of Congress, are functionally excluded from participation in the budget process. But a good budget process would be clear and easy to understand. Even if we are going to continue to disagree about how we spend our money, we shouldn't be confused about what is happening.

Second, it ought to be evenhanded with respect to the roles of the President and the Congress.

Third, it ought to impose strict discipline.

Fourth, it should be simple so that the process is clear and understandable to Congress and the public.

Fifth, it should encourage early consultation between the President and the Congress.

We have seen in years past what happens when we wait until the very end of the fiscal year to deal with appropriations. We shut down the government; we play a game of chicken with \$1½ trillion enterprise. We should produce binding decisions on overall budget levels early in the year, rather than procrastinating and waiting until the 11th hour.

Sixth, and most important of all, we should tie all of the individual spending decisions that we make, not just in our Appropriations Committee, but in authorizing committees—to an overall plan. That is what a budget is all about. It should be a forecasting tool and a planning device.

Seventh, we should require explicit decisions on spending levels for all Federal programs, not just those which are arbitrarily deemed to be controllable. It is not consonant with the concept of a budget that much spending operates outside a budget, on autopilot.

Eighth, this new budget process shouldn't raise any difficult questions of constitutionality. It should be very straightforward. Finally, we should build in a bias in favor of spending restraint that could be overcome only if Congress wants to do so.

So these are the features of the budget process contemplated by the Budget Process Reform Act.

To meet these objectives, the bill imposes the fundamental requirement that there be a budget first, and spending second. The budget, to be an effective planning tool, has got to come up front in the process. That is a simple matter for most people outside of Congress to understand and it should be a central part of our budget process. Until a binding budget is signed into law, the Budget Process Reform Act requires that no authorization or appropriations bill could come before either House or before any committee. We have got to have the budget in place first.

The budget should be simple, and therefore, under the Budget Process Reform Act it is one page long.

In the existing system, the President starts off the process by sending up hundreds of pages of budget detail. This does nothing more than brew controversy. Members of Congress all open the

budget book to the page that contains their program and find out whether it is underfunded or missing. If either of those is the case, they declare the budget dead on arrival. We declare the President's fiscal priorities all out of whack.

What Congress needs to do is function as a board of directors. We are a big group. We are 535 people. We should be making broad policy decisions to guide our government, rather than starting out the process with attempted micromanagement. And yet the 1974 act builds in micromanagement. It drives us down the wrong course from the first.

So under the Budget Process Reform Act, the one-page budget comes before the President's budget submission. Congress will ask the President to sign the budget into law—the bill will make the budget a joint resolution. But this budget law is only the aggregate. It is only the big picture. The President's detailed budget submission won't be due until 15 days afterward. That, by the way, is exactly what President Clinton actually did in his first budget year. He waited until after Congress passed a budget resolution before he submitted his own budget. It worked very well. It happened to violate the 1974 act, but it is a better system and it is one that we should use.

Now, I am sure people have observed often today that whatever budget reforms we come up with, Congress might find a way to end run. We have got to make sure that whatever we do is enforceable. The Budget Process Reform Act, more than anything else, is an integrated system of enforcement mechanisms. It is designed to prevent all known methods of cheating.

The first is the super majority requirement. Congress can set the budget at whatever level it wants. But, if Congress seeks to spend outside the budget that it just passed, and then a super majority will be required to break the budget. This is merely a requirement that Congress obey the budget law it just passed. We need to follow the law that we just passed only for that very same fiscal year. But we must be serious about our budget, at least for that one fiscal year, and in order to break our own budget, we will have to get a super majority vote.

If Congress breaks the budget, the President will get a new enforcement tool. It is not the line item veto, which Congressman Stenholm and others are not enthusiastic about, but line item reduction, not only is Congressman Stenholm enthusiastic about this veto, but so too are several people who are concerned about the balance of power between Congress and the President. They find line item reduction to be a superior alternative.

Line item reduction, which is what I call this variant of enhanced rescission in the context of the Budget Process Reform Act, would give the President the power to pare back over-budget spending to the level that Congress set in its own budget in the form of a law. That is the President's job. He is supposed to be the enforcer of the laws that Congress has passed.

The Congress will also be required to budget for all accounts, excepting only interest on the debt and Social Security, which has an earmarked tax and its own trust fund. "Such sums" appropriations would be abolished. In that fashion, all spending will be brought within the discipline of the budget process.

The Lugar amendment to the Food Stamp Program illustrated how this mechanism for appropriated entitlements—the Cabinet Secretaries—in the case of Food Stamps adjust benefit and eligibility levels requirements so that the Secretary of Agriculture—would be empowered to adopt regulations that the program costs what Congress appropriated for it.

Again, we are not telling Congress to cut spending in any of these programs. We are only telling the American people that we are going to bring entitlement programs within the budget process and affirmatively decide how much we want each program to grow.

To maintain the integrity of congressional control over the legislative process, the Congressional Budget Office, not OMB, will be the scorekeeper for determining whether a particular spending bill is within or without the budget that we pass.

The Budget Process Reform Act outlaws budget waivers. I mentioned that most of the time Congress end-runs the requirements we have already got. The 1974 act is a good example of that.

Mr. COX. In the 102d Congress, half of all of the rules adopted by the House waived the Budget Act in its entirety. We are all familiar with how that works. Waivers of the Budget Process Reform Act on the other hand will be subject to a super majority vote on the floor of the House.

Another is avoiding government shutdowns priority that I mentioned earlier. The Budget Process Reform Act provides a safeguard against the contingency that on October 1, the start of the fiscal year, Congress and the President have as yet done nothing. In that case, the previous year's funding levels would be automatically reappropriated. This automatic continuing resolution would apply to all accounts except interest and Social Security.

The political reality of this mechanism for avoiding government shutdowns is that neither the Congress nor the President will want to live with last year's priorities. It will, therefore operate as an incentive for people to do things on time. Its essential function is to avoid procrastination and delay, so that we don't go beyond the start of the next fiscal year without the budget process having been completed.

Today's nonsystem mocks the law. The 1974 act is observed in the breach, if at all. Every year since the law was passed we have had a different budget process. Sometimes it might take the form of ad hoc negotiations at Andrews Air Force Base. Another time it might be a yearend CR or reconciliation bill but in no case is it what the 1974 act says it is supposed to be.

When it took place out at Andrews, the people who were there weren't even the chairs of the budget committees. We have to have a legal system that Congress follows and that makes sense. That is why it is time to fix the 1974 act in the way that I have described.

I will continue to work to gain the necessary bipartisan support for a bill that is not a silver bullet that does not promise to balance the budget, and that does not promise to do anything but organize our affairs. I will do so because the better organized our financial affairs are, the more likely it is that we will achieve our deficit objectives reduction and the more likely it is that the priorities of the 1990's will rise to the top while the hoary and ancient spending

that is built into our system will finally give way. That is the Budget Process Reform Act in a nutshell, and I appreciate the opportunity to talk to you about it.

[The prepared statement of Mr. Cox follows:]

CHRISTOPHER COX

CALIFORNIA

COMMITTEE ON THE BUDGET

JOINT ECONOMIC COMMITTEE

COMMITTEE ON GOVERNMENT OPERATIONS

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KEY TO SPENDING RESTRAINT

TESTIMONY OF THE HONORABLE CHRISTOPHER COX
MEMBER OF CONGRESS FROM CALIFORNIA

BEFORE THE SUBCOMMITTEE ON LEGISLATION AND
NATIONAL SECURITY OF
THE HOUSE COMMITTEE ON GOVERNMENT
OPERATIONS

JUNE 29, 1994

Mr. Chairman:

Congress simply has abdicated its control over most government spending. Every year Congress in effect writes a blank check for welfare and other so-called "entitlements" it declares "uncontrollable."

Congress fails spectacularly to control even the things it declares it can and will control. Year after year, Congress violates the deadlines and ceilings it has established to regulate the way it spends money.

With just cause, the people of the United States are clamoring for lower taxes, less government, and less government spending. An overwhelming majority of both Houses of Congress have voted for a constitutional amendment requiring a balanced budget.

The citizens of this country have made it plain: They are demanding that Congress accept fool-proof discipline in the way we spend their money.

For this reason, 180 members of the House from both parties have joined as sponsors of the Budget Process Reform Act, H.R. 2929. Preparing this legislation was a bipartisan exercise. We drew upon the experience and ideas of Democratic and Republican Administration officials, congressional leaders, and academic experts across the past seven decades.

Our study found that the chronic failure to balance the budget is the inevitable result of a poorly designed congressional budget process. This process not only permits but actually encourages violation of the very laws designed to force rational choices among competing priorities. The process virtually guarantees wasteful spending and financial chaos. Any sincere effort at deficit reduction must be based on reform of our broken-down budget process.

Not least among the reasons that the system is subject to manipulation and abuse is that very few people understand how it works. Even within Congress itself, terms like "current services baseline," "section 302(b) allocation," and "undistributed offsetting receipts" often produce blank stares. The budget committees, whose members should have the incentive and opportunity to understand the process, are powerless to enforce the law.

We must adopt a new budget system worthy of the people's trust. It must be strong enough to withstand the wildest efforts of those who don't want to accept restraints on spending. It must be strong enough to survive the inevitable attempts to replace it with some less restrictive expedient.

The hallmarks of the Budget Process Reform Act are clarity, evenhandedness regarding the role of the President and Congress, and strict discipline. It is based on the premise that an effective budget process must do each of the following:

- o Be as simple as possible in concept and means of implementation, so that the process is clear and understandable to Congress and the public;
- o Encourage early consultation and cooperation between Congress and the President;
- o Produce decisions on overall budget levels early in the budgeting year;
- o Be evenhanded with respect to the President and the Congress, not giving either an advantage in dealing with the other or in establishing spending priorities;
- o Tie each individual spending decision to an overall, binding budget total;
- o Require explicit decisions on spending levels for all federal programs, not just those arbitrarily deemed "controllable;"

- o Prevent threatened shut-downs of the government;
- o Not raise difficult questions of constitutionality;
- o Contain a bias in favor a spending restraint that could be overcome only if both the President and the Congress wish to do so.

Here are the key features of the Budget Process Reform Act:

Budget First, Spending Second: This proposal would require that Congress enact a legally binding budget (in the form of a joint, rather than a concurrent resolution) by April 15 of each year. Until the budget is signed into law, no authorization or appropriations bill could come before either the House or the Senate floor, or before any committee. The budget would set ceilings on all federal spending (except Social Security and the interest on the debt) for the coming fiscal year. The President would submit his highly detailed budget proposal only after having signed into law the simple, 19-line-item Congressional budget resolution.

The Act's requirements, if followed, will end the current chaos of the budget process. But experience has shown that Congress will seek ways to avoid--if not simply ignore and violate--any legal requirement aimed at promoting fiscal responsibility.

We must not slide down that road again. The people have lost patience with government waste and smooth-talking congressional deception. We must ensure that Congress will no longer be able to escape the discipline of a reformed budget process. That is why the Budget Process Reform Act establishes a series of enforcement mechanisms which, in effect, lock the door on all the exits--and even deny Congress the tools to pick the locks.

The Supermajority Requirement: First, Congress would be permitted to enact spending legislation in excess of its own budget law enacted that year only by a supermajority vote. The only way to adopt spending proposals by simple majority would be to authorize and appropriate within the ceilings of a duly enacted budget law.

No More Blank Checks: The Act will require Congress to determine the desired level of spending for each federal program except Social Security and interest on the debt. Open-ended "blank-check" appropriations--such as those for entitlement programs, which authorize the spending of "such sums as may be necessary"--would no longer be allowed. Instead, the one-page budget enacted by Congress would include spending on entitlement programs.

Line-Item Reduction: If Congress spends in excess of its own budget, the President would be granted "line-item reduction" authority. That is, the President could pare back the over-budget portion of any spending to the level set by Congress in its own budget. The President's reduction could be overridden by Congress through legislation expressly disapproving the specific rescission.

This "line-item reduction" authority is applicable only to the over-budget portion of the proposed spending. In the event that Congress failed to adopt any budget at all, the President would get the same authority to cut back any spending in excess of the previous year's levels.

Line-item reduction is actually preferable to a line-item veto. A veto gives the President the power to eliminate an entire category or program with the stroke of a pen. But a line-item reduction would give him the power to reduce over-budget programs incrementally, leaving intact that portion of the program which has been budgeted by Congress. And a veto must be exercised within 10 days after a bill is sent to the President, whereas line-item reduction can be exercised at any time during the fiscal year.

To maintain the integrity of congressional control over the legislative process, the Congressional Budget Office, not the Office of Management and Budget, would be the "scorekeeper" for determining whether particular authorization and appropriations measures are consistent with the budget.

No More Budget Act Waivers: In recent years, one of the most notorious ways that Congress has cheated the budget process is to "waive" the requirements of the 1974 Act. In fact, during the 102nd Congress, half of all rules adopted by the House waived the Budget Act. Waivers of the Budget Process Reform Act will be subject to a supermajority vote on the floor.

Avoiding Government Shutdowns: Finally, the Act provides a safeguard against the contingency that on October 1, the beginning of the fiscal year, Congress has failed to complete action on appropriations for all or part of the budget. In that case, the previous year's funding level would automatically be reappropriated for the upcoming fiscal year. This "automatic continuing resolution" would apply to all spending, except Social Security and interest. An added virtue of this sustaining mechanism is its bias in favor of spending restraint. If no action is taken, spending does not increase from year to year.

Today's system mocks the law. It perpetuates gridlock. It treats spending as "uncontrollable." And I believe the greatest scandal is that our system is designed to keep the taxpayers confused.

Through the Budget Process Reform Act, we will enforce the law. We will require cooperation between the President and Congress. We will bring entitlement programs under budget control. Above all, we will make the system clear and understandable to the people whose money we are spending.

Mr. Chairman, I believe Congress can do what it must do. We can win back the people's trust. I believe the time is coming when a majority in the Congress will recognize it must accept this kind of reform. Unless Congress intends to mock the majority of Americans clamoring for tight control of the federal budget, we must enact a tough new budget enforcement law.

Thank you, Mr. Chairman. I would ask that the full text of my remarks be included in the record at the appropriate point, together with the statements of Senator Lott and Senator Shelby, who were unable to be here today.

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Mr. CONYERS. Well, thank you very much. You have done an excellent job of separating the concept from lock box and A to Z, and I think there is a great deal of merit in this third path that I see emerging. Because you are trying to put concepts and principles into place rather than just additional numerical limitations and procedures that where we may not be able to predict what their ultimate effect is going to be.

Sometimes those unintended consequences take over, and you create a whole new set of problems, as we have seen happen time and time again.

So I want to thank you for bringing your proposal forward, and I think the proof of the growing numbers and the bipartisan support testify that you are on a path that more and more people will be considering. We will be holding more hearings on it, so we invite you to submit any witnesses that you might want us to consider when we go into more detail on your measure.

Mr. COX. Well, I appreciate it. As I said at the outset, I am amazed you are all still here.

So thank you very much.

Mr. CONYERS. We won't be here much longer.

Mr. COX. Good.

Mr. CONYERS. You are the final witness. Bill Zeff.

Mr. ZELIFF. Thanks, Mr. Chairman. I am not going to ask any questions; I think you are on to something that makes a lot of sense, and I appreciate you coming before us, and we will look forward to any additional testimony as we have additional hearings.

But again, today has been an excellent hearing and in listening to a whole bunch of ideas, most of which I certainly support, but I certainly support what you are doing, so thank you for coming before us.

Mr. COX. Thank you very much. I appreciate the work you have been doing.

Mr. CONYERS. Mr. Spratt.

Mr. SPRATT. Thank you, Mr. Cox.

Mr. CONYERS. Chris Cox, we appreciate your contribution to this budget reform process. Thank you very much.

Mr. COX. Thank you.

Mr. CONYERS. And the subcommittee stands adjourned.

[Whereupon, at 8:50 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

BUDGET PROCESS REFORM

THURSDAY, AUGUST 4, 1994

HOUSE OF REPRESENTATIVES,
LEGISLATION AND NATIONAL SECURITY SUBCOMMITTEE
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2154, Rayburn House Office Building, Hon. John Conyers, Jr. (chairman of the subcommittee) presiding.

Present: Representatives John Conyers, Jr., John M. Spratt, Jr., Al McCandless, and William F. Clinger, Jr.

Legislation and National Security staff present: James C. Turner, staff director.

Full committee staff present: Frank Clemente, senior policy advisor; Kevin Cronin, associate counsel; Mechita O. Crawford, staff assistant; and Martha B. Morgan, minority professional staff.

Mr. CONYERS. Good morning. The Subcommittee on Legislation and National Security will come to order.

We continue the hearings on proposals to reform the Federal budget process. The current budget process reform proposals are driven by a desire to reduce the deficit, so it is first worth reviewing Congress' latest accomplishments at deficit reduction.

Last year, Congress cut \$500 billion through budget reconciliation. These budget cuts, combined with the robust economy, should reduce the deficit below \$170 billion in the fiscal year 1995. That is more than \$100 billion less than the deficit projected when President Clinton took office, representing a 40 percent cut in the deficit inherited by the President.

For the first time since Harry Truman, the budget deficit will decline 3 years in a row.

On the legislative front, much has happened since we began these budget process reform hearings a month ago. Last month, the House adopted H.R. 4604, legislation introduced by our colleague from South Carolina, Mr. Spratt, to better control entitlement spending.

It is a responsible, yet flexible piece of legislation. If entitlement spending exceeds the targeted level, the President can decide to recover some, none, or all of the increases. If savings are needed, the President must recommend legislation to achieve the savings. Nor can we hide. The Congress must meet the President's recommended savings through reconciliation, or vote to raise the entitlement targets to reflect the increases.

Also, the House passed H.R. 4600, expedited rescission authority, strengthening the Presidents authority to cut spending on a line item basis.

These are very significant steps, and they represent a clear response to the concern of all Members for greater control over Federal spending.

Just as this committee has contributed to the development of these previous reforms, we will continue to fulfill our obligations to the House to serve as a forum for considering other refinements to the budget process. And that is what we will be doing today.

We will continue to air difficult and sometimes controversial budget process reform issues, including examining proposals to reform emergency spending laws. We need to know whether or not there is a better way to provide urgently needed money to distressed people, regions and cities without making an exception to spending caps.

We will also consider recommending further ways to cut spending, such as base closure-style commissions. Some Members want Congress to change the way new property is scored to facilitate its acquisition.

Others want the Federal budget to show the below-cost sale of resources to properly reflect the cost to taxpayers of mining and grazing on Federal lands.

The legislative process of budget reform is moving forward, and given the interest of Members on all sides, a thorough review of all issues is required. These issues should not be buried from view, but neither should we rush blindly down an unwise and untested path.

So I look forward to hearing from our colleagues who are here today, and I recognize the gentleman from California, Mr. McCandless.

Mr. MCCANDLESS. Thank you, Mr. Chairman.

In the interests of moving forward and getting to our subject, I would waive any opening remarks and welcome our guests at the appropriate time.

Mr. CONYERS. Thank you very much.

Do you have any comments, Mr. Clinger?

Mr. CLINGER. Just, Mr. Chairman, to ask unanimous consent that my opening statement might be submitted for the record.

Mr. CONYERS. Without objection, so ordered.

[The prepared statement of Mr. Clinger follows:]

Statement of the Hon. William F. Clinger, Jr.
Subcommittee on Legislation and National Security
August 4, 1994

Thank you, Mr. Chairman. I'd like to commend both you and our witnesses for your continued commitment to a thorough and wide-ranging discussion of the many budget issues confronting this Congress. As our persistent \$200 billion dollar deficits and \$4.6 trillion dollar debt clearly show, this is a problem which must be addressed through serious process and spending reforms.

My only regret, Mr. Chairman, is that this committee is not being allowed to put its knowledge to use. Once again, we have waived jurisdiction over the budget process --- we have declined to mark-up the two budget bills which will reach the Floor next week. As a result, even though our first witnesses will be sponsors of the major emergency spending reform bills now pending before the House, those Members will have to petition the Rules Committee for consideration during mark-up and on the Floor. Government Operations has again missed the opportunity to help craft the best

and strongest bill possible, and neither our Members, nor the House, nor ultimately, our constituents, have been well served. I urge you and the leadership to reverse this unfortunate trend by allowing our Members to employ their expertise in these much-needed reform efforts. Allow us to mark-up these bills to help bring federal spending under control.

Mr. CONYERS. Mr. Spratt.

Mr. SPRATT. Thank you, Mr. Chairman.

As the chairman knows from my meeting with the leadership, we will be moving additional budget process legislation. We hope to take up in the near future a bill that will clarify what can be included and cannot be included on emergency spending bills.

In addition, we hope to take up a bill which will deal with the presentation of the budget to ensure that there will be a current funding or an existing funding level as the first line with which to compare the year's appropriation or the year's budget request, functions, and subfunctions, when it is presented to the Congress.

In addition, in the near future we hope to have legislation that will respond to three different bills, at the last count, which provide for the idea of having a lock box or a way of not only cutting spending items but also carrying those items over the discretionary spending limit and reducing that limit to that amount. This hearing is to give us an opportunity to offer and consider those ideas in providing that legislation.

So, I thank all the witnesses for appearing. I thank the chairman for calling the hearing.

Mr. CONYERS. Thank you.

We will start off with the former Governor of Delaware, now our colleague, the Honorable Michael Castle. We will ask Sam Johnson of Texas to join you, if you don't mind.

We began the hearing considering emergency spending reform and the issues that revolve around this subject.

And we are delighted to have you start us off, Mr. Castle. You have had some experience in both directions on this, and we would be delighted to hear from you.

And I would ask unanimous consent that your testimony and all of the witnesses' today be incorporated in full in the record.

Welcome. You may begin.

STATEMENT OF HON. MICHAEL N. CASTLE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF DELAWARE

Mr. CASTLE. Well, thank you very much, Mr. Chairman. Congratulations to you, sir, in your recent victory.

I would like to ask unanimous consent to submit a statement in full and I will try to summarize my position here today.

First of all, I listened to your statement, and indeed to that of the others who spoke here, and do agree that a number of things have happened in recent years which are of a positive nature with respect to budget processes on the Federal Government level. And I do believe the Federal Government's budgeting is as difficult as probably all the States put together. So there is nothing simplistic about the answers that we need to achieve.

Having said that, I still think that the Federal Government is very inefficiently run, both not only in terms of what we do in Congress, and I think we need to make some changes there, but in terms of how we deliver the services and what we expect of the people who work for us.

And I am very pleased that this committee under your leadership is looking at this issue as is the full Congress. I hope it is something that continues for the next 10 or 12 years until we have proc-

esses which the public recognizes are probably in order as far as coming to the bottom line expenditures and how we deliver our services.

Under current law, emergency spending is not subject to annual budget limits and deficit reduction requirements. Congress does not have to plan for the costs associated with natural disasters or other emergencies. When a disaster occurs, as we all know, Congress simply appropriates emergency funds. These funds do not have to be offset by other cuts and they are added to the deficit.

In addition, as we have seen even in the 1½ years that I have been here, Congress often adds funds for unnecessary pork-barrel projects to the emergency bills, including other appropriations for emergencies beyond the one that is under consideration.

I consider this to be very poor public policy. While we cannot predict the exact time and nature of a disaster, it is quite probable that they will occur. And Congress should make an attempt to plan and pay for these emergencies within existing budget limits.

My legislation, H.R. 4189, I hope would be a solution to this. And it does the following.

This legislation would help restore planning and accountability to budgeting for natural disasters by making emergency appropriations part of the annual budget process, and holding these funds in a budget reserve account for emergencies. This, by the way, is done in many States today.

The legislation would require Congress to annually appropriate funds in a budget reserve account to pay the cost of natural disasters or other emergencies. These funds would be included under the annual discretionary spending caps set by the budget resolution and administered by the appropriations committees.

The reserve account would lower the amount of funds available for other programs, the only responsible approach to spending, and that obviously would include tough decisions. If the reserve funds are not used during a particular year, they would be used for deficit reduction. That is returned to the U.S. Treasury.

Congress would be forced to set aside an adequate amount of funds in the account because the emergency spending authority would be eliminated. The average cost of these bills has been \$2.5 billion since 1989. If Congress set aside that amount each year, we would go a long way toward reducing the deficit.

That is just a suggested amount based on the historical record which we have examined carefully. The Office of Management and Budget would be required to report to Congress each year about how the funds were spent, and the reserve account would begin in 1996.

Now, some existing laws would have to change, and briefly they would be: the bill would amend the Congressional Budget Act of 1974, to create the reserve account that requires that these funds be included in the annual budget resolution and section 602 allocations administered by the Appropriations Committee, and the bill would amend the Balanced Budget and Emergency Deficit Control Act of 1985, which we all know is Gramm-Rudman-Hollings, to repeal the authority for Congress to appropriate emergency funds not subject to budget limits.

I understand the process here. I understand that the legislation Mr. Spratt is sponsoring is apparently going before the Rules Committee. And I have also asked the Rules Committee to consider this as an amendment as a proper part of the process. But I would hope that parts of this, if not in its entirety, would be considered as the next natural progression to deal with the area of emergencies.

I will say finally, as I look at the budget process in this Congress, if I had to point to one area of concern in terms of pork barrel-type legislation, the kind of thing people really resent, it is in this emergency appropriation situation.

And we need, in my judgment, to do something with respect to this as soon as possible, and hopefully get to the point, if not now, at least at some point in the future, where it is indeed under the budget caps, part of the budgeting process, reserved for that particular purpose, and hopefully used for deficit reduction.

So I will submit my statement in full and be prepared to answer any questions the committee may have, and yield back.

[The prepared statement of Mr. Castle follows:]

STATEMENT OF CONGRESSMAN MICHAEL N. CASTLE
GOVERNMENT OPERATIONS SUBCOMMITTEE ON LEGISLATION AND NATIONAL SECURITY
HEARING ON BUDGET PROCESS REFORM
AUGUST 4, 1994

MR. CHAIRMAN AND CONGRESSMAN MCCANDLESS, I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE THE SUBCOMMITTEE TODAY TO DISCUSS POSSIBLE IMPROVEMENTS TO THE FEDERAL BUDGET PROCESS, PARTICULARLY IN THE AREA OF EMERGENCY APPROPRIATIONS.

I BELIEVE WE NEED TO TAKE A VARIETY OF STEPS TO IMPROVE HOW OUR GOVERNMENT SPENDS THE PEOPLE'S MONEY. A STRENGTHENED BUDGET PROCESS WILL NOT ELIMINATE THE FEDERAL DEFICIT, BUT IT WILL MAKE A REAL CONTRIBUTION TO THE EFFORT AND HELP RESTORE OUR CONSTITUENTS' FAITH IN HOW WE ARE MANAGING THEIR TAX DOLLARS.

THIS HEARING IS IMPORTANT AND I HOPE IT PRODUCES LEGISLATIVE ACTION. THE IMPETUS FOR THIS SESSION WAS PROVIDED BY THE A TO Z SPENDING CUT PROPOSAL AND I CONTINUE TO SUPPORT THE EFFORTS OF BILL ZELIFF OF THIS COMMITTEE AND MIKE ANDREWS TO MOVE A TO Z FORWARD. WE NEED ADDITIONAL SPENDING CUTS AS SOON AS POSSIBLE.

I ALSO HOPE THAT THIS HEARING IS NOT TOO LATE TO INFLUENCE LEGISLATIVE ACTION ON THE WAY CONGRESS APPROPRIATES FUNDS FOR NATURAL DISASTERS AND OTHER EMERGENCIES. IT IS MY UNDERSTANDING THAT AS EARLY AS TODAY, THE RULES COMMITTEE MAY MARK-UP LEGISLATION BEING DRAFTED BY MR. SPRATT TO LIMIT EMERGENCY

APPROPRIATIONS BILLS TO ONE EMERGENCY. THIS IS A WORTHWHILE REFORM, BUT IT IS NOT ENOUGH. WE MUST CHANGE THE BUDGET RULES TO REQUIRE CONGRESS TO INCLUDE EMERGENCY SPENDING IN THE ANNUAL SPENDING LIMITS.

AS YOU KNOW, UNDER CURRENT BUDGET RULES, EMERGENCY SPENDING IS NOT SUBJECT TO THE ANNUAL SPENDING LIMITS. THIS IS A CRITICAL SHORTCOMING IN OUR SYSTEM. IT PERMITS US TO AVOID PLANNING FOR EARTHQUAKES, HURRICANES, FLOODS AND OTHER DISASTERS. WE KNOW THAT THEY WILL ALMOST CERTAINLY OCCUR, YET WE FAIL TO PLAN FOR THEM. WHEN THEY DO HAPPEN WE SIMPLY DECLARE AN EMERGENCY AND APPROPRIATE X BILLIONS OF DOLLARS TO RESPOND TO THE DISASTER.

FROM A BUDGETING STANDPOINT, THE WORST PART OF THE CURRENT SYSTEM IS THAT EMERGENCY FUNDS DO NOT HAVE TO BE OFFSET BY OTHER SPENDING REDUCTIONS. THEY ARE JUST ADDED TO THE DEFICIT. WHEN MEMBERS ATTEMPT TO OFFER AMENDMENTS TO OFFSET THE COST OF EMERGENCY SPENDING THEY ARE ACCUSED OF DELAYING HELP TO THE VICTIMS OF THE NATURAL DISASTER. THIS IS AN UNFAIR AND UNNECESSARY CONFLICT.

ALSO EXTREMELY TROUBLING IS THAT BECAUSE EMERGENCY APPROPRIATIONS ARE NOT SUBJECT TO ANNUAL SPENDING LIMITS IT ENCOURAGES SOME MEMBERS, AND OFTEN THE ADMINISTRATION, TO ADD FUNDS FOR PROJECTS WHICH ARE CLEARLY NOT PART OF THE EMERGENCY AT HAND.

MR. CHAIRMAN, WE CANNOT PREDICT THE EXACT TIME AND NATURE OF A DISASTER, BUT IT IS QUITE PROBABLE THAT THEY WILL OCCUR AND CONGRESS SHOULD MAKE AN ATTEMPT TO PLAN AND PAY FOR THESE EMERGENCIES -- WITHIN EXISTING BUDGET LIMITS.

I HAVE INTRODUCED H.R. 4189, WHICH WOULD CREATE A BUDGET RESERVE ACCOUNT INTO WHICH CONGRESS WOULD ANNUALLY APPROPRIATE FUNDS FOR EMERGENCIES. THE FUNDS IN THE RESERVE ACCOUNT WOULD BE INCLUDED IN THE ANNUAL DISCRETIONARY SPENDING CAPS SET BY THE BUDGET RESOLUTION AND ADMINISTERED BY THE APPROPRIATIONS COMMITTEE. THE FUNDS IN THE RESERVE ACCOUNT WOULD LOWER THE AMOUNT OF FUNDS AVAILABLE FOR OTHER PROGRAMS. THIS IS A KEY POINT AND IS THE ONLY RESPONSIBLE APPROACH TO SPENDING.

THE TEETH IN THIS PROPOSAL IS THAT H.R. 4189 WOULD ELIMINATE CONGRESS'S AUTHORITY TO SPEND MONEY OUTSIDE THE BUDGET LIMITS. THIS WOULD FORCE CONGRESS TO SET ASIDE AN ADEQUATE AMOUNT OF FUNDS IN THE RESERVE ACCOUNT.

WHAT IS AN ADEQUATE AMOUNT? I THINK CONGRESS AND THE PRESIDENT SHOULD TAKE A CAREFUL LOOK AT THE AMOUNT OF EMERGENCY FUNDS NEEDED IN PREVIOUS YEARS AND BASE THE RESERVE ACCOUNT ON THIS EXPERIENCE. FOR EXAMPLE, THE AVERAGE COST OF EMERGENCY APPROPRIATIONS BILLS SINCE 1989 HAS BEEN \$5.2 BILLION. IF CONGRESS SET ASIDE THAT AMOUNT IT WOULD GIVE OUR GOVERNMENT

ENOUGH FUNDS TO HANDLE MOST DISASTERS AND PROVIDE PROTECTION AGAINST UNNECESSARY DEFICIT SPENDING.

IF WE ARE FORTUNATE ENOUGH TO ESCAPE A HURRICANE OR FLOOD IN A PARTICULAR YEAR AND THE RESERVE FUNDS ARE NOT USED, THEY WOULD REVERT TO THE TREASURY AND THEREFORE LOWER THE DEFICIT.

MR. CHAIRMAN, I HAVE BASED THIS LEGISLATION ON MY EXPERIENCE AS GOVERNOR OF DELAWARE. MOST STATES MUST OPERATE WITH A BALANCED BUDGET. THIS IS TRUE IN DELAWARE. WHEN THE STATE HAS A SURPLUS AT THE END OF ANY FISCAL YEAR, THESE FUNDS ARE PLACED IN A BUDGET RESERVE ACCOUNT WHICH IS NOT TO EXCEED 5% OF THE ESTIMATED STATE REVENUES. WHEN THERE IS AN EMERGENCY THE GENERAL ASSEMBLY CAN ALLOCATE THE RESERVE FUNDS BY A THREE-FIFTHS VOTE. I HAVE ADOPTED THIS PROPOSAL TO THE FEDERAL BUDGET SYSTEM.

IN DELAWARE, THE RESERVE FUNDS ARE ROLLED-OVER FROM YEAR TO YEAR. I DID NOT ADOPT THAT FEATURE BECAUSE IN THE FEDERAL BUDGET AN ANNUAL APPROPRIATION IS STANDARD PRACTICE AND FRANKLY, BECAUSE ON THE FEDERAL LEVEL ACCOUNTS WITH MONEY IN THEM FROM YEAR TO YEAR TEND TO BE SPENT.

MR. CHAIRMAN, I BELIEVE MY PROPOSAL IS A SOUND ONE, BUT I WILL NOT INSIST THAT IT IS THE ONLY APPROACH WHICH SHOULD BE CONSIDERED. I THINK CONGRESSMAN SAM JOHNSON'S "LOOKBACK" PROPOSAL HAS MERIT. HIS LEGISLATION WOULD ALSO ADJUST THE BUDGET CAPS TO INCLUDE EMERGENCY APPROPRIATIONS.

THE CRITICAL CHANGE WHICH MUST BE MADE IS TO BRING EMERGENCY SPENDING WITHIN THE BUDGET LIMITS. IT IS NOT "FREE" MONEY AND SHOULD BE ACCOUNTED FOR JUST LIKE ANY OTHER EXPENDITURE. I URGE THIS COMMITTEE TO APPROVE LEGISLATION THAT ACHIEVES THIS GOAL. THANK YOU.

Mr. CONYERS. Thank you very much, Mr. Castle. We appreciate your prepared statement and comments.

We turn now to the gentleman from Texas, Mr. Johnson.

STATEMENT OF HON. SAM JOHNSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. JOHNSON. Thank you, Mr. Chairman. I appreciate the opportunity to be before you.

I agree with my colleague, and Mr. Spratt, too, that we have got to do something about the way we spend money. And I hope you will get a bill filed pretty soon so we can get on with the program. I know you are working hard on it. And maybe you can include some of these ideas.

I know you are well aware that, you know, in 1990, the Congress implemented these supplementals without paying for them, since that time we have spent a lot of money and added to the debt. And even if you take two-thirds of the money out that was to fund Desert Storm, we still had about \$26 billion that went to the deficit.

If I can enter my whole statement I will, and I will just highlight the points, if that is OK with you, Mr. Chairman.

Mr. CONYERS. Do you have a prepared statement? I don't have it.

Mr. JOHNSON. Well, I have comments which I can give you.

Mr. CONYERS. It doesn't matter. If you don't, it is fine. We will have your full statement in the record.

Mr. JOHNSON. Thank you.

Well, this bill simply changes section 251(c)(2) in current law that provides for a look-back provision and allows that any breach of the discretionary caps would be subtracted from next year's spending.

We just apply this to supplementals, which means you don't have to set up any funds, you don't have to set up any mechanism to do it. So it reduces the discretionary caps in next year's funding by the amount of whatever the emergency supplemental is.

It eliminates delay, partisan bickering, and, you know, I think it would ensure a speedy delivery of funds where we on the floor, as you know, argue about whose money goes where and why. We wouldn't have that argument. If it was indeed an emergency, we could vote it through, and reduce the caps in the next year and take care of it.

I think from a media standpoint it would stop some embarrassing headlines as well for some of us who have to vote for those things. And I am not saying that this is the reason you ought to do it. But it eliminates the argument that reducing funding in the current fiscal year will disrupt important programs because it doesn't take away from them. It will reduce the deficit by paying for disasters and not adding them to the deficit.

And it is not another hollow promise. It is a small step, in my view, to the long road of bringing fiscal responsibility back to the Federal Government.

And all the other proposals leave some kind of loophole for Congress to bypass the system. Even if you tell the Appropriations Committee to reduce spending in certain areas for supplementals,

by putting a rainy day fund in, you and I know that doesn't always happen or they may not have the money to do it, or you don't know where it is going to come from.

We tried this in Texas, and had a rainy day fund there, which seemed to work except there never was any money in it. We always managed to find a way to spend it on something at the year end. So I think that would happen with a rainy day fund here, or it could.

And with that, I will leave myself open to questions, and thank you for allowing me to testify in front of you.

[The prepared statement of Mr. Johnson follows:]

COMMITTEE ON GOVERNMENT OPERATIONS

CONGRESSMAN SAM JOHNSON

JUNE 29, 1994

THANK YOU MR. CHAIRMAN,

FIRST, I WOULD LIKE TO THANK THE CHAIRMAN FOR HOLDING THESE IMPORTANT HEARINGS ON BUDGET REFORM. I AM LOOKING FORWARD TO DISCUSSING THIS PROPOSAL WITH THE COMMITTEE.

THE BILL THAT CONGRESSMAN STENHOLM AND I BRING BEFORE THE COMMITTEE TODAY, IS LIKE SO MANY THAT WANT TO CORRECT THE ABUSE OF EMERGENCY SUPPLEMENTALS. BUT OURS IS DIFFERENT BECAUSE IT WILL ENSURE THAT "EMERGENCIES" ARE PAID FOR AND ARE NOT CIRCUMVENTED BY CONGRESS.

OUR BILL WILL HELP CONGRESS GAIN CONTROL OF TWO CONTROVERSIAL TOPICS, ONE BEING THE WAY CONGRESS APPROACHES AND PAYS FOR THESE NECESSARY BUT HIGHLY EXPENSIVE "EMERGENCY" SUPPLEMENTALS AND THE OTHER IS THE NO WORRY ATTITUDE OF THE

CONGRESS TOWARD THE NATIONAL DEBT. BOTH BRING HEATED PARTISAN DEBATES, POLITICAL POSTURING AND DELAYS THAT ONLY INCREASE THE PUBLIC'S DISSATISFACTION WITH THE WAY THE FEDERAL GOVERNMENT OPERATES. THE FINAL RESULT IN THESE SITUATIONS IS A DELAY IN AID FOR THOSE IN NEED.

THE JOHNSON/STENHOLM BILL WILL CHANGE THAT BY EXPEDITING "EMERGENCY" SUPPLEMENTAL BILLS WHILE BRINGING ACCOUNTABILITY BACK TO CONGRESS. LET ME START BY TELLING THE COMMITTEE HOW WE PLAN TO ACCOMPLISH THIS TASK BY SIMPLY MAKING A MINOR CHANGE IN BUDGETARY LAW.

OUR BILL AMENDS SECTION 251 (C)(2) WHICH PROVIDES FOR A "LOOKBACK" PROVISION. THE PROVISION STATES THAT IF THERE IS A BREACH IN THE DISCRETIONARY CAPS FOR THE CURRENT FISCAL YEAR, THEN THE CAPS WOULD BE LOWERED BY THE SAME AMOUNT IN NEXT YEAR'S FUNDING. OUR BILL ALLOWS THE "LOOKBACK" PROVISION TO BE DIRECTLY APPLIED TO EMERGENCY SUPPLEMENTALS.

MEMBERS, UNDER CURRENT LAW, MUST HASTILY THROW TOGETHER A PACKAGE OF SPENDING RESCISSIONS TO OFFSET THE EMERGENCY.

THIS PACKAGE OF SPENDING REDUCTIONS GIVES MEMBERS VERY LITTLE TIME TO STUDY OR THOROUGHLY UNDERSTAND THE LONG TERM IMPACT OF THESE REDUCTIONS. OUR BILL WOULD ALLOW MEMBERS TIME TO PUT TOGETHER A CONCISE AND WELL THOUGHT OUT GROUP OF RESCISSIONS THAT WILL NOT TAKE AFFECT UNTIL THE NEXT FISCAL YEAR.

THIS WILL ALSO ALLEVIATE THE ARGUMENT THAT REDUCTIONS IN THE CURRENT FISCAL YEAR WILL SEVERELY DISRUPT THE CURRENT YEARS FUNDING PROCESS WHICH COULD POSSIBLY JEOPARDIZE IMPORTANT AND WORTHY PROGRAMS.

THIS REFORM WOULD VIRTUALLY END THE HEADLINES WE ALL KNOW TOO WELL. EVERY TIME CONGRESS PASSES AN EMERGENCY BILL THE MEDIA REPORT THAT CONGRESS HAS DELAYED, BLOCKED OR ADDED PET PROJECTS TO A

BILL THAT SUPPOSED TO HELP AMERICAN'S REBUILD THEIR LIVES.

NOW I HAVE EXPLAINED HOW WE CAN PAY FOR THESE BILLS - BUT THIS PROPOSAL ALSO SERVES ANOTHER PURPOSE. THIS BILL WILL ALSO END MEMBERS' DESIRES TO ATTACH EXTRANEIOUS REQUESTS TO THESE IMPORTANT SUPPLEMENTALS.

UNDER CURRENT LAW, ALL OF THESE EXTRANEIOUS REQUESTS ARE CONSIDERED AS PART OF THE "EMERGENCY" SUPPLEMENTAL AND ARE PUSHED THROUGH QUICKLY AND USUALLY WITHOUT QUESTION. BUT, THEY ARE ADDED DIRECTLY TO THE DEFICIT AS WELL.

UNDER THIS PROPOSAL THESE MEMBERS WILL BE MADE TO PAY FOR THEIR EXTRANEIOUS REQUESTS. I WONDER HOW MANY MEMBERS WILL BE ABLE TO PERSUADE THEIR COLLEAGUES TO SUSTAIN CUTS IN NEXT YEARS FUNDING TO PAY FOR A PET PROJECT THEY ADDED TO AN EMERGENCY RELIEF BILL.

I DON'T NEED TO CONVINCE YOU THAT OUR NATION IS IN A SERIOUS FINANCIAL SITUATION. BUT, I MUST CONVEY TO YOU THE IMPACT REFORM IN THIS AREA CAN HAVE.

SINCE 1991 CONGRESS HAS USED IT'S POWER TO DECLARE \$25.8 BILLION IN DISCRETIONARY DOLLARS UNDER "EMERGENCY" DESIGNATION. THAT IS \$25.8 BILLION DOLLARS OVER FOUR YEARS THAT WAS ADDED TO THE CURRENT DEFICIT OF \$254 BILLION, WHICH IN TURN WAS ADDED TO THE CURRENT \$4.3 TRILLION DOLLAR NATIONAL DEBT WHICH NOW REQUIRES INTEREST PAYMENTS ON THE OF OVER \$290 BILLION PER YEAR.

I KNOW THAT COMPARED TO THESE UNTHINKABLE NUMBERS \$25 BILLION DOLLARS MIGHT SEEM SMALL, BUT IT DOES HAVE AN IMPACT. CONGRESS MUST TAKE ACTION TO CONTROL THIS DISASTROUS PROBLEM.

WE MUST BE MORE RESPONSIBLE WHEN WE ARE MANAGING THE AMERICAN TAXPAYERS MONEY. WE BELIEVE THAT THE JOHNSON/STENHOLM BILL IS A SOUND AND PLAUSIBLE STEP IN THE RIGHT DIRECTION. IT WILL

HELP REDUCE OUR DEFICIT, PAY FOR "EMERGENCIES,
CURTAIL ADDED "PORK" PROJECTS AND ENSURE A SPEEDY
DELIVERY OF NEEDED FUNDS TO HELP THOSE IN NEED TO
REBUILD THEIR LIVES.

THANK YOU MR. CHAIRMAN AND I WOULD BE GLAD TO
ANSWER ANY QUESTIONS THE COMMITTEE MIGHT HAVE
ABOUT THIS BILL.

Mr. CONYERS. Well, thank you very much.

This is a sort of what you have called a look-back proposal?

Mr. JOHNSON. I reckon that is a good name for it, Mr. Chairman.

Mr. CONYERS. Yes, when we talk about emergency spending we are really talking about the unpredictable. There could be so much uncertainty in our level of spending due to the unpredictability of these disasters.

Representative Johnson, if we have multiple emergencies which are higher than expected due to particularly severe disasters and large losses, how do we handle it? Are we going to cut into other programs in which there has already been an allocation?

It seems to me that the problem that you rightly describe backs us up into another problem that may worsen our situation. I would like to talk this through with you.

Mr. CASTLE. If I could go first on this, Mr. Chairman, we looked at the emergency funds, and as I have mentioned in my testimony, it comes out to \$5.2 billion on average since 1989. But you are absolutely right, emergencies are totally unpredictable, either in terms of the extent of them or the number that may occur. So we don't know in any particular year if it is going to be less or more in some instances.

But while the emergencies can't be predicted, I think sort of an average cost can be. And I would presume that in our budgeting process that we could cover emergencies in most years, which I think we should do.

When you have the exceptions, I would not mind having some tightly—and that means we will be spending under the budget caps, if you will. I think when the exception is de minimis, that is, within a few million dollars or even tens or hundreds of millions of dollars, that we should have some responsibility to go back in and look at our budget and see if we can make some cuts to accommodate, stop spending so much during the course of the year.

If we get an emergency that is of greater scope, a wartime emergency or something of that nature, clearly I think separate and discrete legislation that would absolutely do nothing else but that, similar to what Mr. Spratt has talked about, and I think that Mr. Johnson has a very good concept, too, with a look-back in the next year to try to make up for it is a way to approach it.

I don't suggest that we absolutely cap it so if people are indeed in distress we would do nothing to help them. I am just saying let's plan for what we expect the emergencies to be and let's have some sort of a release valve only if it is absolutely essential to do so with very strict limits on what that release valve would be.

Mr. CONYERS. Mr. Johnson, are you two in agreement generally about the proposals that each of you have? They do vary a little.

Mr. JOHNSON. Yes, we are. I just think that, from my experience in State legislature and from what I have seen up here, it is going to be very difficult to get an Appropriations Committee to set aside funds, whatever the number might be, without mandating it in law each year.

And if you do that, as you state, the emergencies vary from year to year, and you never can be sure you are putting enough aside or maybe you have too much laying out there.

And in our current deficit position, really a fund doesn't mean anything. As long as we are spending more than we are taking in, you don't have any money really sitting out there to protect yourself with.

Mr. CASTLE. I do agree with Mr. Johnson's proposal. In fact, I like it quite a bit. I also agree with what Mr. Spratt is trying to do. I just feel we should go further.

Let me comment on my State. I think a lot of these ideas come from State backgrounds.

In 1978, the then Governor of Delaware said that Delaware was bankrupt, basically, had a lot of trouble with our bond ratings and everything else. But from that time on we started taking these measures. We went to the line-item veto, balanced budget amendment. We started to introduce reserves. We have a 5 percent rainy day set-aside each year and a 2 percent cushion on top of that for emergency appropriations. We do not have that go toward deficit reduction because we do not have a deficit. Admittedly, it goes back into next year's budgeting if there is any left over. That is Delaware, a small State. It is also true of a lot of States which have taken such measures.

I would like to at least start to drive Congress in that direction. The technicalities of how we are to do it, whether it is a combination of all these things, frankly is not of as much importance to me as the fact that we do it.

No piece of legislation I have introduced has been adopted by a majority of this Congress, and I don't expect it to start now. But I hope to add to the dialog.

Mr. JOHNSON. I would like to comment, if I could. You know Mr. Stenholm is on this with me; we are cosponsors of the bill. So I have had some input from that side. He was unable to make it to the hearing this morning, but, you know, should we go to Rules with it, he will be there with me.

Mr. CONYERS. Well, don't feel bad if you are a prophet ahead of your time, Mr. Castle. Your day may come yet. So hang in there.

Now, neither of your proposals mention the national security emergency which is included in the current emergency exception. How do you propose to address potential national security needs that might confront us in an emergency?

Mr. JOHNSON. I think this proposal will do just that, because it authorizes any overexpenditure to be reduced in the budget in the next year, the limitations by omitting that particular paragraph out of the law.

Mr. CONYERS. So you don't want national security emergencies to be involved in this? That is a pretty important distinction under your proposal, don't you agree?

Mr. JOHNSON. Well, I think we have to pay for them too, and, you know, two-thirds of the deficits that we incurred during the Middle East years when that war was going on, were because of Desert Storm. So, you know, I think we just added it to the debt.

I don't see any reason why under those conditions, when we do have a national emergency, and God help us if we don't have one like that again, of that expenditure, we can find a way to pay for it by reducing the caps in the next year.

Mr. CASTLE. Actually mine does refer to national security. It does include it in section 1(c) on page 2. It says, "Recession on use of funds, notwithstanding any provision of law, the amounts of the account shall not be available for other than emergency funding requirements for particular natural disasters or national security emergencies, so designated by acts of Congress."

And I am told the \$5.2 billion average includes Desert Storm and some of the national emergencies that we have managed during that period of time.

Again, I don't want to tie totally the hands of Congress. There could be a year in which either emergencies or regular natural emergencies plus a wartime emergency of some sort or another could compel us to have to appropriate more. I recognize that particular fact.

But I do believe that we can set levels at which, in most years, we would be able to manage it within the budget that we have, and if exceptions have to be made we can determine that in completely separate and discrete legislation at that time.

But I think we should include emergency appropriations for wartime and those kinds of uses.

Mr. CONYERS. But separate from the natural disaster emergency?

Mr. CASTLE. No, as part of. As part of the whole package, I think it should be part of it.

Mr. CONYERS. So you do not change that, then.

Mr. CASTLE. No, I do not.

Mr. CONYERS. Finally, there is always a possibility that we get a use-it-or-lose-it mentality around by prefunding emergencies, because you are looking at billions of dollars for sure. If things are going pretty smoothly, and we have money in the reserve fund, something may come up on the screen that will qualify for an emergency that might not in other times.

How difficult a problem might that be?

Mr. CASTLE. That is a problem. That is a tremendous problem. I imagine you will see all kinds of emergencies that nobody ever thought of remotely as being an emergency, and that is going to take discipline, too. I think it is going to take leadership in this Congress to say this is money solely for emergencies. If we do not use it, it is going to be returned for deficit reduction.

And maybe a President and a leader of the House and the budget leaders of the House can take pride in saying that we were able this year to return \$3 billion for deficit reduction in addition to what was appropriated because there were not emergencies or whatever it may be.

But I will be the first to say, you can't really, I guess, shackle everybody with respect to that. So it is going to take the power of persuasion to make sure that kind of thing does not happen.

If it becomes a Christmas tree at the end of the year to be spent, then I say, don't even bother to do it. But there is no way to write a law that is so controlling that somebody wouldn't take a run at that, and you raise a valid point, Mr. Chairman, which would concern me, but one which I think we can manage correctly.

Mr. CONYERS. I hope so.

Mr. JOHNSON. In that regard, again referring to the State, we had that problem with the fund we set aside. We ended up putting

a super majority on it to spend it, or in other words two-thirds vote, or four-fifths, whatever.

Mr. CONYERS. Let me turn now to Mr. McCandless.

Mr. MCCANDLESS. Thank you Mr. Chairman.

Mike and Sam, I applaud you for this. It is long overdue and reminds me of my former life as a supervisor when we had to balance the budget. We had what we called a reserve for contingencies. It was a sacred account that you only went into at the risk of being beheaded, almost.

We have not seen the word discipline used in the Federal Government as it relates to fiscal matters, particularly that of the budget process. And so when we talk about supplemental appropriations, we purposely sometimes short a particular budget item in the regular budget and then make it up in the supplemental in order to make the product look better at budget time.

I think we need from you gentlemen some thoughts relative to definitions. And I would like to ask, Mike, what would you refer to as adequate? That is a word that is used. And I have a spreadsheet here that has been supplied—I believe this is yours, Sam. Would you take an average of the previous 5 years or something like that and say, all right, this is where we are going to start, we will see how it goes, and go from there?

Mr. CASTLE. Yes, I think that is what you would do. To determine the amount, I think you would have to—the budget analyst would have to look very carefully over a period of time—I think 5 years is a reasonable period of time—of all kinds of emergencies, and reach some sort of an average number. That should be part of the process each year. We go back and look at what it was, make a determination as far as the future year is concerned.

I think it has another effect. I think if we set the amount, and it is, say, for the purposes of example, that it is \$5.2 billion. We might be more cautious when we start to reach that limit when you get into some of these emergencies.

So I don't know this, but my suspicion is that when we get into these emergency spending bills, which I really have disliked here, we tend to spend money not just on the pork barrel-type things, if you will, but even within the emergency itself we tend to layer it on. It is an emergency, we want to help the people of California or wherever it may be in their particular circumstance, and I think we probably pay less attention to the total amounts there than we do in the budgeting process that we have in this Congress.

And I think if we have some sort of stated amount, that we would be more cautious about that, knowing it is early in the year, there might be another emergency or whatever it may be.

I don't think we do a very good job of budgeting in emergencies, because of the nature of what they are. And I think this would help enforce that discipline as well, and to get an amount, I would look at some average over some period of time.

And I am not trying to name what that time is, but to me 5 years is the usual period of time for measuring budgetary matters around here, and that seems fine.

Mr. MCCANDLESS. We have all seen emergency appropriations being used for virtually everything, the last of which I remember being the overhaul of New York's Central Station.

Sam, another word that is a part of this is the word "emergency." Now, one can define emergency a number of ways. One could say, well, Desert Storm was an emergency. FIRREA was an emergency. Various types of weather conditions and geological conditions are emergencies, i.e., the Georgia hurricane, floods in the Midwest, the earthquake in the West, and so on and so forth.

How would you go about defining emergency? What would be your general thought on that?

Mr. JOHNSON. Well, it seems to me that when we have hurricanes and floods of that nature, the President authorizes emergency help.

Mr. MCCANDLESS. That would be a kicker, then.

Mr. JOHNSON. Yes, that is a definition of an emergency, is when—

Mr. MCCANDLESS. He declares an area a disaster area at the request of the Governor of that State and the counties and the cities. And that would automatically trigger the word emergency.

Mr. JOHNSON. True. Now, I don't know, in the case—maybe you know, Mr. Chairman, whether or not we have declared an emergency in the case of Africa and the support over there. I don't know how that is being funded. But if he did declare that an emergency, that would be an emergency under this example.

Mr. MCCANDLESS. I believe that the State Department along with training funds from the Department of Defense probably are the major source of revenues there.

Mr. JOHNSON. Operational funds, I think.

Mr. MCCANDLESS. Instead of just flying back and forth somewhere they are flying over there and back.

Mr. JOHNSON. I think also in an emergency, did we declare Desert Storm an emergency? I wasn't here then so I don't know. But I think certainly a national emergency could be considered under the same rule, where you involve military activity.

Mr. MCCANDLESS. The whole point here of the definition of emergency is to omit and reduce to the maximum degree possible these tag-ons we have all witnessed in supplemental appropriations. It looks like a road map going across the United States, particularly if you are a senior Member of Congress, your name is in there one way or another as far as a project is concerned.

We have one other item here that we want to discuss with you. The leadership, along with Congressman Spratt, are crafting a bill which will create a point of order against consideration of a bill which includes money for programs not designated as emergencies, and we have been talking about that, and I am certainly in accord with that. It allows more than one emergency to be funded in a single bill and does not prevent an entire bill with everything in it from being designated as an emergency.

Your thoughts on how we might be able to short circuit that supplemental to the supplemental to the supplemental aspect that we have been talking about. Is there a way of doing it?

Mr. CASTLE. I am not sure that I know enough about procedures here to say here is what we should do. But I feel very, very strongly, very strongly, that when we come to pass appropriations, that we should absolutely—first of all, do what Mr. Spratt generally is trying to do which is to limit it to whatever that emergency is, pe-

riod, no ifs, ands or buts about that. To do what you said, Mr. McCandless, to define emergencies per se.

I would eliminate—repeal the authority from Congress to appropriate emergency funds not subject to budget limits as sort of a way of dealing with that and just deal with that defined amount of money that we are talking about in this particular legislation.

And—but I don't know, other than explicitly laying all that out in legalese that I have not been able to draft, I cannot tell you the exact procedures except that I just think we should do that and do that this year, if we do nothing else, and that is absolutely limit what we are spending emergency money on, and absolutely define emergency more explicitly.

Mr. MCCANDLESS. Emergency, in parenthesis, discipline.

Mr. CASTLE. Exactly. I mean, it is a matter of will, and it is important to make up our minds that this is just nonsense, that the American public has had enough of the add-ons, and let's just go about adopting legislation that does something.

Mr. JOHNSON. I am sure you all have looked at that definition very thoroughly, particularly Mr. Spratt, and trying to weed out the extraneous material. But I think you are on track doing that, and I hope you succeed.

Mr. MCCANDLESS. Thank you.

Mr. Spratt.

Mr. SPRATT. One reason we haven't been more ambitious with sticking to the basics is there is a task force within the Congress. Dick Durbin heads it; and when you talk with Dick Durbin, he warns us this is only on the surface, that is, when you get into it, it gets extremely complex. There are lots of questions that obviously I think we need to address as part of budgeting.

For example, we might provide for something like an across-the-board abatement, even looking forward to some period of time that would pay for the cost of an emergency, or you might have an across the board surcharge to income taxes.

I know your side wouldn't necessarily agree to that, but there could be a mix of the two. There could be rescissions, across-the-board abatements, and there could be some sort of income tax surcharge. We would be forced to choose when we appropriate for emergencies exactly how we would fund it out of these three categories.

I think this task force is some distance away from having a report, so in the meantime, the very least we can do is try to keep the process particularly relevant to the problem at hand, which is keeping it confined to emergencies.

If we do what Governor Castle would propose and fund the FEMA with the moving average or the average for the last 5 years, then, as I understand the objection to that, we owe FEMA a substantial sum of money and both of you are aware of the consequences of that, because I believe Mr. Castle in your particular proposal you would have it lapse at the end of the year if it were not spent, on the theory that if you leave money in the coffers of a government agency, they will likely find ways to spend it.

I was on the military construction committee at one time, and they do authorize the money for civil defense. And FEMA at that time—this was the Reagan administration—was requesting a lot of

money for research and development. They wanted to triple their research and development budget.

We asked, what in the world is FEMA spending \$25 million on research and development for? And they gave us a mushy answer so we asked for specifics and we got a voluminous list of consultant contracts. They must have had a contract from every Beltway bandit in Washington, Virginia, and Maryland on some aspect of emergency management. They were about to spend \$25 million on it. We didn't fund it.

I think if you gave FEMA this kind of money and it got close to the end of the fiscal year and they didn't need it, you know what would happen. They would be buying things that they wouldn't need. I believe the prevailing attitude around here has been, let's not give them the money until they clearly need it, and at that time we will appropriate it.

I think both of you even recognize the wisdom in that from having been in government. And I have to recognize the wisdom in what you are saying. We ought to try to actuarially determine what it is likely to be and provide for it.

There is something not clear in my mind in your proposals. Right now, an emergency is an exception to the Budget Enforcement Act if the President declares an emergency and Congress passes the money.

Would you declare an exception so it would be over the \$540 billion limit, or would this have to be funded within the \$540?

Mr. CASTLE. It would have to be funded within the \$540.

If I could comment quickly on the other part, I couldn't agree with you more, and I want to make sure you understand my bill doesn't do that.

When I was Governor, we had a hurricane in Delaware and they put me in the emergency command vehicle. It made the limousine I road around in look like a play toy. This thing was unbelievably loaded with equipment. I don't know how they got it or paid for it. You could live in the dog-gone thing.

You give any agency, frankly—I am not faulting FEMA at all when I say this, I am sure they are well run—a substantial amount of money—my bill calls for putting this money in a reserve account and Congress must appropriate in accordance with very strict limitations. I would never want to give an agency this kind of money outright. That would create some substantial problems, I think.

Mr. JOHNSON. I think that an emergency has to go over discretionary limits, because I think last year was a good example of that, when that emergency came up after the appropriations process had been finished. There is no way to go back then and recover. And I am sure you face that.

So I think that you have to allow it to go over discretionary and then cut the limits in the next year. That is my proposal.

Mr. SPRATT. Thank you both for your contribution. We appreciate your interest and look forward to working with you on this.

Mr. CONYERS. Thank you very much, Mr. Spratt.

Bill Clinger, please.

Mr. CLINGER. Thank you, Mr. Chairman.

Gentlemen, thank you for your very valuable contribution to an obviously thorny problem, one that is being looked at from a vari-

ety of points of view. I think clearly our problem is that you can define something as an emergency in order to break the caps. Therefore there is tremendous pressure to find something to be an emergency.

So I think in fact, what Mr. McCandless is talking about—there is a real need to have a very precise definition of what we mean by emergency. I gather you would agree we would have that definition included in the legislation. In other words, you would not leave it to the executive branch to define what is an emergency.

We have all dealt with dire emergency/catastrophic supplemental appropriations. And we found some pretty interesting things that were defined as dire emergency needs.

So I take it you both would say that we really need to be pretty precise in how we define it, it should be defined in legislation.

Mr. CASTLE. Absolutely.

Mr. CLINGER. Thank you very much, gentlemen.

Mr. CONYERS. Gentlemen, we are grateful to you. You started off our emergency spending reform discussion in a very excellent way. And your recommendations will be given thorough consideration. Please be assured.

Thanks so much.

Mr. CASTLE. Thank you.

Mr. JOHNSON. Thank you, Mr. Chairman.

Mr. CONYERS. We call our own colleague, Bill Zeff of New Hampshire, forward to move to the second part of our consideration, how we cut additional spending.

And we heard from you in the last meeting, Bill, and we would like you to continue your discussion this morning. Welcome again to our subcommittee.

STATEMENT OF HON. WILLIAM H. ZELIFF, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW HAMPSHIRE

Mr. ZELIFF. Thank you, Mr. Chairman. I appreciate your leadership on this very important subject.

My colleagues, I am in another Government Operations hearing where I serve as ranking minority leader, and we are talking about job training. And I couldn't help but think that what a natural lead-in to the A-to-Z concept.

Here we have 154 job training programs that cost us \$24 to \$25 billion. Much consolidation is needed. And that is just one example. But on my A-to-Z idea, which I have worked with Rob Andrews, Democrat from New Jersey, the A portion of this, we just want to—we didn't want to miss this opportunity to reinforce how important this is, how important all of your individual ideas on budget process reforms are.

In my judgment, when I go out to my town meetings and we talk to folks back home, and we present an idea that our deficit is \$4.7 trillion, it is going to be close to \$6 trillion in the next 5 years, our interest on the debt, some \$212 billion, projected to be \$272 billion in the year 2002. The annual dent is somewhere around \$200 billion, a little less this year, but projected on an average. So we clearly can't say we are doing enough.

I think that would be irresponsible. And there are so many different areas and good ideas you are trying to cope with here and

weed out. Our A-to-Z concept is merely a process which would give every Member of Congress over 56 hours of debate, an opportunity to make amendments, to cut the deficit, to include entitlements. And most important, to put all of those savings directly to the bottom line.

And so even though we have 230 cosponsors of that bill, clearly the will of the majority, both sides, Republicans and Democrats working together, we somehow have not been able to get much progress on it.

We have elected to go through the discharge route. We are at 204 and holding. And with your cooperation and leadership and the opportunity for exposure, maybe that can change as well.

So I appreciate your leadership on this, and the opportunity to testify and appear before you.

Mr. CONYERS. Thanks, Bill.

We know of your work, before this subcommittee, and any other committees and we are very aware that the discharge process is under way on your measure, and we are hoping we can meet you somewhere down the road halfway and see what can be worked out.

Mr. ZELIFF. Thank you, Mr. Chairman.

Mr. CONYERS. You are welcome.

Any comments from any of my colleagues?

Mr. MCCANDLESS. Yes, Mr. Chairman.

With your indulgence, I would like to share a couple of thoughts with Mr. Zeliff and see what his responses are.

Bill, this is a characteristic of what happens not only on this floor, but in other areas of government where somebody really tries to do a job of holding down spending, to the point that they do not leave any wiggle room in their budget. Now in theory it would come to the A to Z part of what we are talking about, and someone on the floor who had no knowledge of what had transpired would argue that there is always 10 percent in the A budget that you can cut.

So his motion to cut that budget 10 percent, which then encourages everybody else the next year to add 15 percent to their budget and scream and holler. This is now a tradition and accepted.

I had some direct experience with this in the Coast Guard a few years back, with the Falcon chase planes stationed in Florida. They didn't have enough money to buy extra engines, and so the engines were sent to the Garrett Corp. in Phoenix for overhaul. In the meantime, they would switch engines from airframe to airframe to keep half of the fleet going.

We really got into the budgetary process. And what had happened was very similar to what I have outlined to you.

How do we avoid that in a situation such as you are talking about?

Mr. ZELIFF. I would like to assume that we are dealing with responsible people in this House, and that as we debate over an hour, we hear both pros and cons, and that we do our homework. It will be published in the Congressional Record 5 days. It will be scored by CBO. And we will certainly have the background we need to make intelligent arguments.

Now, you can always make examples, no matter what procedure we go forth with. In 1991, at 4:30 a.m., you know, on voice vote we passed \$55 billion to refund or put more money into FDIC/RTC. I think that is an irresponsible act. That doesn't mean all acts are irresponsible here, but, you know, I think we can look for examples where it doesn't work, but I would rather go for the 98, 99 percent rule, in most cases it will work.

A to Z is merely a process we use in business and a process that we use in town meetings, where you review some programs, you get an open rule or up-or-down vote.

Would it be better to go through the committee process and take the time? Sure. But we have been denied that opportunity.

And frankly our only route now to force real, concentrated focus on budget reform is to come out with something as strong as A to Z, where it scares the living daylights out of everybody, and now we are starting to get serious about it. The leadership is saying, now we will do 1 day on entitlements. Just think. I don't know when that day is going to be, but let's assume it is a day, and assume we do some progress. Think how exciting it would be if we did 8 days or 56 hours.

I don't know if I answered your question directly, but it is something that I think is a responsible answer to solving our Nation's biggest problem. We have tried balanced budget amendments. We have tried line-item vetoes. We have tried Penny-Kasich. We have tried a whole bunch of things. I have been willing to support almost everything I have heard on the budget process reform. But I think A to Z is the strongest measure that will force some solid reform.

Mr. MCCANDLESS. Would you liken it to the equivalent of a congressional 2 by 4?

Mr. ZELIFF. It depends on the person who looks at it. Unfortunately there are many that have looked at it as a 2 by 4. What I would rather see it looked at, frankly, is someone saying, gee whiz, maybe it makes sense.

I heard the testimony in this committee by Chairman Obey, and basically on appropriations, and I believe also on the budget end of it, that, hey, we are doing a great job, we have gotten discretionary spending pretty well frozen.

They have made some good progress. We can do better. We still have a big debt. But what is fueling the debt is entitlements. We haven't done a great job on entitlements. I think everybody has to admit that.

So if we do no more than get people to focus on entitlements and finally have more than 1 day on something that is the No. 1 issue that is facing our country, we have accomplished an awful lot.

So I would like to see us be successful. I hope we will be successful. We are not going to go away. We are not going to hide in the closet. We made a commitment to this thing and we are going to be around for a long time.

But I think it can be done in a very responsible way, and one that I am very proud as a Member of this Congress to say that I think it is making some changes here.

Whether we get our bill passed, we are going to have a light A to Z. If you want to do all the things you can do to block it by giv-

ing something else, we are making progress. I think frankly leadership has blocked us in every way they possibly could and we are still moving forward.

Mr. McCANDLESS. Thank you.

Mr. CONYERS. I think there is a spirit of progress coming from way back there. It is a little dim right now, but it is discernible. And I think you should keep hope alive on that bill.

Mr. ZELIFF. Thank you, sir. That is why I mentioned that. I appreciate your leadership.

Mr. CONYERS. John Spratt.

Mr. SPRATT. No, thank you, Mr. Chairman.

Mr. CONYERS. Bill Clinger.

Mr. CLINGER. Thanks, Mr. Chairman.

I just want to commend Mr. Zeliff for his persistence and his tenacity and hanging very tough. I think you are right, it has had an impact. It has moved the envelope, as we say. And I think we are seeing some progress. So I think it is important that you continue to be persistent. It really made a difference.

Mr. ZELIFF. Thank you.

Again, my colleagues and, Mr. Chairman, you know, I know you have grandchildren and children. I have two grandchildren, and frankly after I leave here, after 10 years, I would like to be able to say that I have done something about living within our means, and I hope A to Z is the thing that is made us get to that point.

I thank you very much for your time.

Mr. CONYERS. You are very welcome. I would like now to call Representative David Minge and Peter Barca forward to testify—Representative Herb Klein, who will return in a minute or two, will join you shortly.

Gentlemen, we welcome you, and thank you for your patience. We have your statements which will be made part of the record.

And, Dave, why don't you kick it off with your recommendation on cutting additional spending.

STATEMENT OF HON. DAVID MINGE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. MINGE. Thank you, Mr. Chairman.

First, parenthetically, I would like to note that the discussion on the disaster funding, off-budget emergency declarations, things such as that, is of keen interest to me. I am serving on the task force with Dick Durbin and Bill Emerson.

I did introduce a national disaster trust fund bill, H.R. 2974, which is not why I am here today, but due to the interest you indicated in this subject, I would just like to briefly indicate that that would use a gasoline tax to raise approximately \$10 billion and then set that aside as a trust fund and replenish that fund whenever it is drawn down because of a disaster, so that we would include the funding of disasters within the budget.

Mr. CONYERS. An interesting idea. I am glad you put it into the record. We will take a good look at it.

Mr. MINGE. Thank you. If it is enacted this year, I would feel very proud. But if it waits until next year, I will still appreciate the support.

The reason I am here this morning is to speak with respect to a base closing commission approach to dealing with the deficit. Two years ago, when I talked to a variety of people about my concerns about deficit reduction and how we as a country could try to move ahead on it, I was struck by the difficulty we face in Congress with trying to make tough political decisions with respect to programs that many of us may have worked on creating during our tenure in Congress and have a very strong feeling that these programs are vital to the Nation, and I hate to see anything done that might rein them in or compromise their effectiveness, depending on your perspective.

At the same time each of us represents a diverse jurisdiction in the country, and we would very much like to see our area at a minimum fairly treated, and our concept of fairness usually means something beyond what most other people in the country would think should be adequate for our congressional district.

And so as a consequence, we are partisans for, advocates for our congressional district. In that context, it is very difficult on a bill-by-bill or program-by-program basis to make cuts in the deficit, cuts in the budget that in turn cut the deficit, eliminate the deficit.

And my observation is if I am asked to vote to reduce the agricultural budget, just as an example, it is terribly difficult for me to cast a vote to make that reduction, because I represent what is probably the most agricultural congressional district in the country.

Yet, if there is a series of cuts that includes agriculture, and I can go back to the people in Minnesota and say, look, we are taking our hit, but so is everyone else, I can vote for that bill. I don't have a problem.

Now, we tried that with the Budget Reconciliation Act. That was an attempt to move in that direction. But we found afterwards that the Veterans Administration, the Department of Veterans Affairs, is not going to be exempt from cuts, from any reductions in the Federal work force.

We have this very, very great difficulty in making a decision and sticking with it. And part of what we need is something that has the shared-sacrifice concept, and part of what we need is someone else to essentially blame for the tough decisions that we have to make.

And I know if I go back to Minnesota or if I go out to speak to a group and I say, gee, this program for our area is great, but, you know, it is President Clinton that is doing this to us, or it is the Republicans that are doing it to us, or something like that, and they are cutting everything else, again, it is easier for people to accept.

So the base closing commission concept struck me as a very useful way to deal with the task, the difficult task of balancing the budget. And I am here today to endorse that concept. We flirted with the concept of a National Economic Commission in 1988 and 1989. Unfortunately, it did not succeed for a variety of reasons, which appear to be largely political.

I am pleased to see that John Kasich has sponsored a bill of this type, again, in 1993. Mr. Kasich's bill is H.R. 2953. I am simply here to say that a bill like John Kasich's is, in my opinion, the right way to proceed. I urge this committee to very carefully look

at this bill, look at the concept that was embodied in the National Economic Commission, and I would hope we could report this out to the floor as something we could try as a way to balance the budget within the next 4 years or 4 years after the enactment of the legislation.

I appreciate the chance to visit with you this morning for a few moments about this. I do have a prepared statement which I trust is at your desk. And I would recommend that to you.

Thank you.

[The prepared statement of Mr. Minge follows:]

STATEMENT OF
CONGRESSMAN DAVID MINGE

BEFORE THE HOUSE COMMITTEE ON GOVERNMENT OPERATIONS
SUBCOMMITTEE ON LEGISLATION AND NATIONAL SECURITY
DURING A HEARING ON BUDGET PROCESS REFORM

AUGUST 4, 1994

Mr. Chairman and distinguished members of the Committee, I would like to thank you for the opportunity to participate in these important and much needed discussions on budget process reform. We are here today because we are all concerned about our looming budget deficit. Each year since 1969, our federal government has been operating in the red. As a result, our national debt has increased exponentially. Today, the gross federal debt stands at approximately \$4.5 TRILLION dollars. Unless we take action now to reduce and eliminate our deficit, future generations will find themselves so entrenched in debt that the American dream will be only a memory.

CREATION OF A SPENDING REDUCTION COMMISSION

I am here today to support a budget process reform bill that would reduce and eliminate the deficit quickly and fairly. The bill, H.R. 2953, was introduced by my colleague from Ohio, Mr. Kasich. Referred to as the "Spending Reduction Act of 1993," this measure would provide a fair, nonpolitical process that would achieve \$65 BILLION in spending cuts each fiscal year until a balanced budget was reached. To do this, the bill would establish a Spending Reduction Commission that would be required to recommend specific spending reduction proposals to the President and Congress. Under the provisions of the bill, the Spending Reduction Commission would be subject to guidelines when crafting their recommendations. The Commission would attempt to:

- 1) Eliminate redundant and outdated programs, as well as those whose missions can be effectively accomplished by the private sector.
- 2) Reduce those programs with excessive administrative costs or consolidate them with other programs.
- 3) Eliminate programs that provide subsidies that benefit narrow special interest groups at the expense of the national interest.
- 4) Reduce or eliminate those programs that have low priority in meeting a national interest criterion.

The Commission's final recommendations, being approved by the President, would be sent to Congress for a vote. Both Houses of Congress would be required to vote on the entire package of recommendations without amendment, much like the successful system of the Military Base Closing Commission. The Spending Reduction Commission would be composed of seven individuals appointed by the President and confirmed by the Senate. In order to avoid the political stalemates that have blocked such commissions in the past, no current Member of Congress, employee of the Executive branch, or current or former registered lobbyist would be allowed to serve on the Commission.

IMPROVEMENT OVER FORMER NATIONAL ECONOMIC COMMISSION

If this Spending Reduction Commission was formed, it would not be the first time Congress created a special commission to address the deficit problem. As you may know, the memorable National Economic Commission (NEC) was created by the Omnibus Budget Reconciliation Act of 1987. The vague provisions in that bill which created the NEC did not require the Commission to recommend cutting specific government programs. The provisions also did not require Congress to vote on any recommendations. The NEC was only asked to study the budget deficit problem and make recommendations to reduce the growing deficit. The NEC, despite ideological and philosophical divisions, reported some general recommendations on March 1, 1989. No specific spending cuts were recommended by the NEC in its report and Congress did not vote on any deficit reduction measures as a result of the NEC. The NEC endeavor was, for the most part, fruitless. The deficit continued to grow.

Mr. Kasich's bill to create a Spending Reduction Commission has the teeth that the NEC lacked. The provisions of the bill would require the Commission to ferret out wasteful or extravagant government programs and make specific spending cut recommendations equal to \$65 BILLION a year until a balanced budget is reached. Most importantly, the bill also requires Congress to vote on the recommendations of the Commission. The Spending Reduction Commission would not provide political cover for those who talk about deficit reduction and do nothing. The Commission would be a strong, effective, and fair tool that Congress could use to reduce our overwhelming budget deficit.

WE NEED STRONG DEFICIT REDUCTION MEASURES

We are here today to discuss budget process reform because working under the present system, Congress has been unable to control the deficit. Political gridlock and the unwillingness of members to vote for specific spending cuts have created a frustrating atmosphere where marginal government programs enjoy eternal life and we, the Members of Congress, have excuses for lack of action. We need to invent effective means to deal with

the deficit before it is too late. The establishment of an independent, nonpolitical commission that could provide Congress with specific recommendations on wasteful government spending would be a useful tool for balancing the federal budget. Mr. Chairman, members of the Committee, I strongly urge your support for this Spending Reduction Commission and any other measures that will reduce our federal budget deficit quickly and fairly. Thank you again for allowing me to appear before your committee.

Mr. CONYERS. It will be included in the record. And thank you so much, David.

We are now turn to the gentleman from Wisconsin, Peter Barca. And we are delighted to hear from you this morning.

STATEMENT OF HON. PETER BARCA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WISCONSIN

Mr. BARCA. Thank you, Mr. Chairman.

Just for the record, it is Barca. There is a Jim Barcia and Peter Barca, and our offices are right next door to each other, and at times we do get mixture of mail and so forth. We are good friends, so it is not so bad.

At any rate, I appreciate the fact that you are holding this hearing today and I had a chance to review your opening remarks, Mr. Chairman. I agree with much of what you said in your remarks.

I do have a written statement for the record that we are providing for you. But I thought rather than belabor that, I would just speak for a few minutes.

You know, I agree with much of what you have said. I am very proud of much of the progress that we have made and your statement speaks to that, that over a 2-fiscal-year period we have cut the deficit by about a third.

So I think in the short term we have made very strong progress that we have to build on, and similar to what Mr. Minge had just stated, we have to figure out a means so that we can get at the final two-thirds. And hopefully over the course of the next 4 fiscal years or somewhere thereabouts, we can get at the final two-thirds effort we need to get at to finally have a balanced budget. And this hearing, I think, is important so we can look at ways where over the long term we can accomplish that goal.

I strongly support the lock box bill that I believe your committee has already held hearings on and is looking at. I think that is a very strong measure, similar to the testimony of Mr. Zeliff.

I also am a sponsor of the A to Z bill. Because I would like to see us have another budget session similar to what we had last fall. I thought that was a very productive session that we held. And I was 1 of the 30 people that worked as part of that budget group that brought forward what became known as the Penny-Kasich amendment. While we fell somewhat short of that effort, we did finally pass a budget rescission amendment that was 3 times the level of what the President brought forward.

I do believe that through having these kinds of opportunities, we can have success in bringing down our Nation's deficit. And I look to this committee to provide some leadership for making sure that we have another opportunity of that sort. I think that is what the people of our districts are calling for. I know there is strong support throughout the country for making sure we continue the progress that we have built on. And that is why I am here before you today.

I think it is incumbent upon you to figure out a meaningful method by which amendments can be brought forward, by which Members can have a full opportunity to debate and consider amendments for reducing our Nation's deficit. Perhaps it makes sense to focus it on the entitlement section of the budget, because

we did just finish our budget process. In that budget process, we did have virtually open rules on every single one of the appropriations bills.

In fact, I was very active in debating and offering spending cut amendments, as were many other Members. But the entitlement section, of course, is something that is not part of that process. But I think what I would ask your committee to do is to look for a means where we could have another budget cutting session day, or 2 days or 3 days, however much time could be set aside in a meaningful manner, within the constraints of the time we have left in this session.

Also, I would like to see you move forward on a lock box-type concept. And I would also ask you to give serious consideration to the ideas that Mr. Minge has brought forward in regard to a base closure type of commission.

Personally I think we can do it ourselves. I think we have demonstrated that over the course of the past 2 years. We know it will not be easy, but I think through the efforts of your committee and through the efforts of many Members that we can make that happen.

So thank you for providing me this opportunity to testify here today, and I appreciate your leadership, and that of your committee members, in taking on this important challenge.

[The prepared statement of Mr. Barca follows:]

U.S. Representative Peter W. Barca

Statement on Budget Process Reform
Hearing of the Subcommittee on Legislation and National Security
Committee on Government Operations
August 4, 1994

Mr. Chairman and Subcommittee members, thank you for scheduling this hearing to consider the critical issue of budget process reform. You are demonstrating your commitment to providing thorough and deliberative consideration to proposals advanced by Members of Congress to address deficit reduction.

I am sure the views of my constituents in the First Congressional District in Wisconsin are not unique from those of any other state. They want Congress to continue to identify and eliminate wasteful spending, increase efficiencies, and make the tough choices necessary to cut the deficit until we achieve a balanced budget. We cannot afford to continue spending \$1.50 for every \$1 we take in. It is not fair to our children or our grandchildren.

Our budget-cutting session last fall demonstrated that we can work in a bipartisan fashion to cut spending. I am very proud of the progress we have made this past year to reduce the deficit. I was also pleased to have the opportunity to offer, and debate on, amendments for almost every appropriations bill we considered this year. I was somewhat surprised, in fact, that we did not have more participation by members in offering spending cut amendments during consideration of the 13 appropriations bills.

Today, my remarks will be directed to the procedures we use for amending the budget and cutting unnecessary spending. We took very important action last month when we passed a strong enhanced rescissions bill to give the President a type of item veto. Hopefully, the Senate will follow our lead.

I am a cosponsor of H.R. 3205, the Deficit Reduction Lock Box Act, and H.R. 3266, better known as the A to Z Bill. I am a cosponsor because I strongly support the goal of deficit reduction. The two bills offer important possibilities to advance this important goal.

First, I would like to see us pass a lock box bill to ensure that our spending cuts will actually reduce the deficit. Your committee has had hearings on this bill and I am hopeful you will report out a bill very soon.

Second, the A to Z bill offers another opportunity, similar to the special budget rescission session we conducted last year. I strongly support expanding the opportunities for Members to be involved in making those tough choices needed for deficit reduction.

This committee should move a bill of this sort forward under a process by which amendments introduced and debated will ensure that Members have the fullest opportunity for consideration and debate.

Since the A to Z bill was introduced, it has been the subject of negotiations to establish a meaningful rule which would structure the debate and allow advance publication of amendments. I support having the amendments printed in the Congressional Record at least five legislative days before the beginning of debate.

We should exclude any amendments that had been earlier considered and rejected in order to maximize our prospects for passing amendments that will go all the way through to the President. However, if a spending cut measure had passed the House and not been considered by the Senate, I believe those amendments should be allowed.

A method must also be established to hear amendments in a timely fashion. Perhaps ordering of amendments by issue area could ensure more meaningful debate and fuller consideration.

Further, I believe it may be most productive to have this session focus on entitlement cuts and budget process reform. Since we just completed our budget process in the House and Members had many opportunities to present cuts in discretionary spending as virtually every bill was considered under an open rule.

Most importantly, we need to focus on the long term prospects of balancing the budget. While we have virtually cut the budget by a third over these two fiscal years, the greatest challenge is to cut the final two thirds.

In conclusion, I commend the subcommittee for scheduling this hearing. I look forward to your prompt consideration and timely report so we can schedule an additional budget cutting session yet this year.

Mr. CONYERS. Thank you very much, Mr. Barca.

Tell me, do you agree that one of our national deficits is the budget deficit, but the other is an investment deficit where we have another kind of problem that is less prominent. We may want to direct funds to important investment areas but we may not be able to do it if we cut spending, drive spending down and down and then investment gets stunted.

Do you see a pretty big problem there?

Mr. BARCA. There is an investment deficit to some degree. But if you look at the changes we have made over the past 1½ years, I think we have been able to make important progress on many of those considerations at the same time we do reduce the deficit.

The President last night indicated we had invested more in Head Start, child immunization, which are some of the human concerns that are very critical that we face. We were able to do that at the same time as we did bring down our Nation's deficit.

That is one of the reasons I think those pay-go provisions we are operating under are so important, so that we have to make the difficult decisions of what other areas of the budget could stand cutting at the same time as we make investments elsewhere.

I was somebody that supported eliminating the supercollider superconducting program. I support eliminating the space station. These aren't bad programs. They are good programs. But I think we have to make tough choices and I think that when you look at some of the investment needs we need to make as a country, I don't think they rise to the top of the priorities.

And I just cite those two because those are two very big-ticket items that free up a lot of capital for reducing the deficit and also making those kinds of investments that you referred to, Mr. Chairman.

Mr. CONYERS. Well, I am glad to know you support further deficit reduction. But the discretionary spending is frozen for the next several years, and will actually decline when compared to the size of our economy. Last year this legislature was able to fund less than half of the President's investment initiatives in job training and health.

And I think that may create a problem because it will only get worse. And, you know, much of the titlement spending is around Medicare and Medicaid. So it seems to me that we have some tension between these two kinds of deficits, one the budget deficit, and the other an investment deficit.

Let me call on David. Do you have an observation about this part of the problem we are tackling?

Mr. MINGE. Well, I agree there are investment problems. We have an infrastructure that in many areas is decaying and needs maintenance. I have certainly seen that in highways, roads, bridges in my area. And I know we have problems with young people in this country, and if we don't invest in them in terms of education in their future, it takes a toll on a Nation's economy.

I would like to think that these are investments that we can make on a pay-go basis. We are a large enough country that we should not have to, so to speak, borrow or bond for that purpose. I would also observe that there are many things we can do to cut our costs.

I have heard over and over on the labyrinth, almost Alice in Wonderland process of defense procurement, and what it costs the Defense Department here to purchase items compared to what it costs the Canadians to purchase the very same items from the very same manufacturers.

And if we can't move on things like this, we are in bad shape. And if we can move on them, we can free up some funds for some of that important investment without even compromising our Nation's defense.

At the same time we have programs that we are financing at the national level that, with all due respect to one of the previous panel members, the States can finance. The State of Minnesota had a \$600 million budget surplus when it finished its fiscal year. We should be asking the State of Minnesota for a grant. They shouldn't be coming to us for a grant. And I think that there are a lot of States in that position.

The time has come when we have to say to the States, Revenue sharing is moving in the other direction, and you have to take more responsibility for this investment feature that is so very important that you are referring to and that we can't expect the Federal Government to carry the ball on each of these programs.

Mr. CONYERS. Very good.

Al McCandless.

Mr. MCCANDLESS. Thank you, Mr. Chairman.

This is a very difficult subject to even scratch the surface. When we talk about the task force concept, the base closure idea, certainly it has a lot of merit, if for no other reason than that it takes the political heat off the elected representative and gives the subject matter an objective forum.

I am reminded of the Peter Grace Commission, and the number 326 sticks in my mind. There were over 300 recommendations. They spent I believe it was 14 months in their investigation of the various aspects of government operation, expenditures, et cetera. It cost something like \$75,000 total for these executives to do this work. And they were doing it as a public service. The various corporations were paying for what it was they were involved in. And for the time and effort and many resources that were used.

I take the time of the committee because to me some of those recommendations were outstanding. But it seems the response of some was everything's fine but don't get in my rice bowl. I think we finally ended up with maybe somewhere around 20 of these recommendations being adopted in the process.

Do you see your proposal going the same way?

Mr. MINGE. Having spent some time reviewing what the Grace Commission did, I think that the end product, and also the spirited way in which it was presented, gave a certain partisan flavor to it, and made it more difficult to implement than if that flavor hadn't been there.

The other thing is that I think that the Grace Commission did not really start with a commitment, as a bipartisanship input. So it was a simpler task for the Grace Commission. And so I think that if we choose the commission members with an eye toward building support for the final product, that we would have more success in the implementation of the final product.

Finally, I would say that what I am proposing, what John Kasich has in his proposal, is an up-or-down vote in Congress on the whole report rather than a smorgasbord approach where you pick those items that are politically easiest to implement and you work on them. This might mean the whole thing goes down, but I think there is also a pretty good chance the whole thing would be approved.

And if the military base closing commission approach is any example, I think that there is a decent chance of success.

Mr. MCCANDLESS. If I have a correct analysis of your bill, you put absolutely everything on the table from entitlements to the Department of Defense. Is that a correct assessment?

Mr. MINGE. Yes.

Mr. MCCANDLESS. How do we equip a commission such as this with the knowledge to be able to make good judgments on such things as the Department of Defense?

Mr. MINGE. I think many of the proposals for reduction and expenditure have been discussed, and you can take the Grace Commission report or the National Economic Commission or any one of a number of different studies, and so you have the examples, and there are certain—just take defense as an example. Again, there are weapons systems that the Pentagon has said it doesn't want, and Congress continues to appropriate funds for. The President has not requested them.

So I think that there are ways that the commission can operate that would not require that it have a staff the size of, say, a congressional committee staff on each area of government operations, but instead could proceed with a somewhat smaller staff and hopefully provide a report that both would be balanced and also politically viable.

Mr. MCCANDLESS. We are talking primarily then about the administrative and mechanics of the department rather than a political or an international commitment as established by the President's policy?

Mr. MINGE. I wouldn't want to prejudge it and I wouldn't want to hold myself out as such an expert on either the budget or the Defense Department, to say this is the way it would be. But I agree with your observation, that we ought to be able to do it in ways that would not compromise our global commitments.

Mr. MCCANDLESS. They wouldn't be establishing policy relative to commitments of the Defense Department?

Mr. MINGE. That is a good point. I think that any time you make a budget decision, it has some policy implications. And certainly there would be that side to it.

But I don't think their responsibility would be to overtly try to set national policy.

Mr. MCCANDLESS. Your ideas are excellent. I am not trying to hassle you. We have been involved here with the C-17 in one way or another for quite some time. The whole idea is that this is supposed to be theoretically the next generation of airlift. And that is a program that has had controversy.

Although a civilian commission, the type that you are talking about, that is bipartisan, would theoretically then visit the Defense Department and would say, "Well, is this C-17 program really es-

sential?" And they would get the versions, the script, so to speak, and they would come back and say to Congress, "We have reviewed this and we don't think it is a good idea."

Yet, in reality, what do you use in the future to airlift equipment, supplies, and troops into friendly or unfriendly Rwandas, or whatever, because of what we have in the way of aged equipment in the past?

Those are the kind of concerns that come to mind when we talk about a civilian commission, irrespective of how bipartisan.

Mr. MINGE. I recognize what you are saying. It has a problem. I think you are correct that if we set up a commission of this type, we take some risks and what you have identified is probably one of them.

Mr. MCCANDLESS. This is nothing you would be able to do on the floor of the House after the budget has been established. This would all be done in committee as a result of their recommendations. Is my understanding correct?

Mr. MINGE. Right, that this committee, not a congressional committee, but this committee or commission would come in with a proposal and it would be voted up or down.

Mr. MCCANDLESS. Thank you very much.

Thank you, Mr. Chairman.

Mr. CONYERS. Thank you very much.

Mr. Spratt.

Mr. SPRATT. Thank you for your testimony.

One of the reasons the National Economic Commission came to naught was that the Democratic and Republican Members couldn't agree among themselves about recommendation for revenues. The Republicans were adamantly opposed to recommendations on revenues and wanted to insist on a settlement solely on spending cuts. It seems to me the Kasich proposal takes the same tack.

It raises a question, why exclude revenues? Why not give this commission the authority to look at tax expenditures, interest deductibility, and second home mortgages?

I am not saying I am in support of that, but there are lots of tax expenditures left in the code that might be worthy of examination. Put that in the package.

Mr. MINGE. I agree that it ought to be evenhanded. The economic commission was not so limited. I think that the Presidential campaign in 1988 had a chilling effect on the commission's work. After the inauguration, it was clear that there would be no Presidential support for any tax increase.

I would, in the next session, try to work with Mr. Kasich to introduce a bill that included the revenue side.

One thing that sort of has affected my interest in introducing a bill in this session is that I felt in this session we would have a fairly significant adjustment in terms of revenue, and initially we had talked about a 2½ to 1 ratio of cuts to new revenue, then it was maybe 2 to 1, then 1.5, now it looks like 1 to 1. So I thought for this session at least, if we were actually going to move on this, that the revenue side had been addressed, and this would bring it into balance.

Mr. SPRATT. I guess the underlying problem is a problem Mr. McCandless raises: How do you give this commission knowledge

commensurate to its power? Because if you give them authority to comb through the tax code and look for tax expenditures that are no longer justifiable in view of the deficit we have, give them authority over the Defense budget to decide whether or not we should have a C-17 or a less expensive, less capable 747, or whether or not we should have a Social Security COLA every year based upon the CPI—in that assumes a vast knowledge of government programs.

Do you think any commission could be empaneled that would be wise enough to make all of these decisions? About \$65 billion a year until they wipe out the deficit, that is about \$300 billion worth of wisdom.

Mr. MINGE. There are 535 of us. I suppose we haven't had quite enough wisdom to figure it out yet. But I have thought we have men and women in this country of remarkable talent, some of whom have been directors of the Office of Management and Budget, some of whom have been President, and Members of Congress. And some of these individuals probably would be able to sit on a commission of this type, and they have spent a decade or more already on the exact issues that we are discussing right now, and the programs, even, and probably would bring some background and information to bear that would enable them to do it without a large staff or having to spend a year or so getting up to speed.

So that is the type—people of that stature are the people that I think would be appropriate members of a commission of this type.

Mr. SPRATT. In the case of the base closing commission, the commission really doesn't make these decisions. They have a staff that reviews the decisions that have been made by the Department of Defense and the four services, and they sit in judgment as an appellate court.

Mr. MINGE. I hasten to add that in H.R. 2953, the Office of Management and Budget plays a crucial role in coming up with recommendations and so on. So I believe that we have something resembling that in Mr. Kasich's bill.

Mr. SPRATT. I thank you both.

Mr. CONYERS. Could I ask Herb Klein to come on up and join us? I know you have got hearings that are going to take you away. We are in the question-and-answer period, but if we could just take a few minutes to see how your recommendations complement Pete Barca's and David's.

STATEMENT OF HON. HERB KLEIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY

Mr. KLEIN. Thank you very much, Mr. Chairman. I do appreciate your courtesy and that of the committee members. If I have a few moments, I would like to present my prepared statement. Would that be—

Mr. CONYERS. Yes, we are going to include your statement in the record, so why don't you lift up a few nuggets of wisdom and lay them on us at this point.

Mr. KLEIN. Well, first of all, I want to thank you, Mr. Chairman, and the ranking minority member, for giving me the opportunity to appear before the committee.

My primary purpose in appearing before the committee is to urge that H.R. 4057, the Deficit Reduction Lock Box Act of 1994, be approved by this committee and released for early consideration by the House.

As I am a cosponsor of the bill, it seems to me that the lock box approach is crucial to deficit reduction. Too often we have seen that we have cut appropriation bills that were wasteful and unnecessary only to find that it doesn't do a thing in terms of what we really want to get at, which is reducing the ultimate deficit. And the lock box approach ensures that those spending cuts that we made will be allocated directly toward deficit reduction. It ends what I view as the shell game that often occurs in the appropriations process.

And the bill which Congressman Spratt is certainly the leader on automatically provides that it goes into the lock box account. I understand that Congressman Spratt is preparing another lock box bill which contains improvements to this bill. I certainly endorse the new bill and hope to become a cosponsor of it as well.

There are obviously a number of different approaches to the lock box concept. But I think that the one that is contained in H.R. 4057 with the improvements represents the best one.

I strongly urge that the committee permit this bill to be released so that we can vote on it and so that we can do what I think the American people have been asking for a long time—is that we end the shell game and start using our cuts in appropriation bills in the way we all want them to be used, and that is to reduce the deficit.

[The prepared statement of Mr. Klein follows:]

**TESTIMONY FOR
THE HONORABLE HERB KLEIN**

HOUSE GOVERNMENT OPERATIONS COMMITTEE

AUGUST 4, 1994

I would like to thank Chairman Conyers and Ranking Minority Member William Clinger for holding these hearings today on budget process reforms. These are important hearings that are urgently needed so that we can bring the deficit under control.

I appear here today to urge that H.R. 4057, the Deficit Reduction Lock Box Act of 1994, be approved by this Committee and released for consideration to the full House of Representatives. As a cosponsor of this bill, I believe that this legislation is vital in our efforts to reduce the deficit. This bill currently has 152 cosponsors, both Democrats and Republicans, and is a truly bipartisan effort that will help control the deficit.

For far too long, the cuts that are made in the appropriations process have not been real cuts. Money that is cut from appropriations bills is often freed up and later spent when the bills go to conference. This process must stop if we are to get serious about deficit reduction.

This Lock Box bill will insure that spending cuts in appropriations bills go directly towards reducing the deficit instead of being reallocated to other programs. It can help to end the shell game that often occurs in the appropriations process.

H.R. 4057 creates a deficit reduction account in each of the 13 appropriations bills. This bill will "lock in" deficit reduction when Congress approves spending cuts in Committee or on the Floor through several mechanisms:

--First, spending that is cut in an appropriations bill will automatically go into the Lock Box account unless part or all of the funds are designated to another program under the Subcommittee's jurisdiction.

--Second, to guarantee that spending cuts are not shifted to other programs in conference, the Lock Box account in the Conference report must be between the House and Senate levels. For example, if the House Agriculture Lock Box has \$200 million and the Senate has \$300 million, the Conference Lock Box must be between \$200 and \$300 million.

--Third, the discretionary cap for the ensuing fiscal year will be reduced by the amount in the Lock Box Conference. For example, if the President signs the Agriculture bill with \$200 million in the Lock Box, the discretionary cap will come down by that amount.

In addition, this Lock Box bill does not lower discretionary budget authority in the out years, but rather only affects the ensuing fiscal year. In this way, the deficit is reduced without imposing draconian hardships on Congress or strapping the

Appropriations Committee for future years. This provision has allowed this bill to gain strong bipartisan support.

There are several proposals that use the term "Lock Box". I believe that this bill, H.R. 4057, will be the most effective in insuring that spending cuts are definitively "locked up" for deficit reduction. H.R. 4057 will force Congress to spend more wisely and make cuts more honestly.

In the last eighteen months we have already gone a long way towards substantially reducing the deficit. However, we can and must do more. This bill will provide the tools to make a giant leap forward and bring fiscal sanity to the budget process. I strongly support the immediate mark-up of this legislation by the Committee. This is the only way to guarantee consideration of this important deficit reduction measure by the full House.

Mr. Chairman, I thank you for giving me the opportunity to testify today and for the Committee's consideration of these very vital budget reform measures. Thank you very much.

Mr. CONYERS. Thank you very much, Mr. Klein.

Let me turn now to Bill Clinger to ask him to continue any questions he may have.

Mr. CLINGER. I just had one question, Mr. Minge. As I understand it, your proposal or Mr. Kasich's proposal would include all entitlements, all the sacred cows?

Mr. MINGE. I think they should all be on the table, yes.

Mr. CLINGER. Including Social Security?

Mr. MINGE. Reluctantly, I think for fairness in the process, Social Security should be considered.

Mr. CLINGER. I applaud your courage. We have always felt there were certain sacred cows that couldn't be touched. That is the problem of why we have really not done anything of any significance on reducing the deficit because we have been unwilling to face that.

The only question I have is, if the commission reports nothing but entitlement cuts, I would be somewhat concerned that the whole package could go down because of that.

Mr. MINGE. I think that is one of the reasons we would like to have input from OMB, which I expect would not just look at entitlements; and second, to have people on a commission like this of real stature in our country, statesmen and stateswomen, because that would ensure that would have the type of perspective that would know what politically is feasible, as well as what is necessary budgetarily.

Mr. CLINGER. I think we do need something to bolster our courage.

Mr. MINGE. One thing I have observed, as Members of Congress, as individuals, even in groups of 20 we can do it. The problem is we are a huge body, and we have so many diverse interests and constituencies that we are trying to represent, and it is so rare that as Democrats and Republicans we are presented with what I would call a moderate proposal that we vote up or down not so much on the basis of party label and where the proposal originated, but on the basis of merits of the proposal. And this is one of the things that appeals to me, is to some extent shed the party labels.

And I would also hasten to add that the investment side of this, which the chairman has referred to, I think is important, and I think that a commission of this type would be sensitive to it so that we are not reducing the human investment, which is one of the critical functions that this Federal Government has played and I think has a responsibility for in the future.

Mr. CLINGER. Thank you.

Thank you, gentlemen.

Mr. CONYERS. Would anybody like to ask Herb Klein any questions?

Well, let me just raise the gridlock possibility that always goes along with lock box. Let's say that the Senate cannot accept B-2 spending cuts and the House won't accept C-17 reductions and gridlock moves in. There seems to be a built-in possibility of us tying ourselves into a knot, Herb, and that is what makes me very careful as we approach and evaluate the lock box idea.

Do you worry about that a little?

Mr. KLEIN. Well, I certainly do worry about it, and I know it represents a problem. I also know that Mr. Spratt has some sugges-

tions along those lines in the bill which he is about to present. But it seems to me that we can lose sight of the overall goal, and the fact that it represents a problem doesn't mean that we ought to avoid the lock box concept.

I think we must tackle the deficit head on and make sure that—and a cut to a particular wasteful program is not spent elsewhere.

Mr. CONYERS. Well, let's keep looking at it, because this is on the table.

Did you have any comments, Mr. Spratt?

Mr. SPRATT. I was just going to comment in response to your question. The proposal we have made would be to have program-by-program entries in the lock box, so that when the House and Senate went to conference, the scope of the conference would be as to that particular program rather than as to total dollar amount.

The Murtha problem which he presented in the testimony which he submitted to us in the last hearing wouldn't be raised. He was suggesting the House would take a billion out of the R-17, the Senate would take a billion out of the Seawolf, and as originally drafted, that would leave us with a \$1 billion requirement but no meeting of the minds at all between the House and Senate as to how that would be accomplished. Indeed, we would be at totally different poles.

The way we are currently thinking about doing it is there would be a billion-dollar reduction in the C-17 in the Senate. In the House there would be a billion-dollar reduction, but either cuts in the program would have to go to the deficit reduction account.

Mr. KLEIN. That certainly would go a long way toward solving that problem.

Mr. CONYERS. Mr. Minge, I want to add one comment about the commission proposal. Base closings are problems because Members argue don't close any base in my district, but anywhere else you need to cut is quite all right. When we talk about a deficit reduction, we are talking about nationwide money programs, and it seems like we might be more likely to be able to decide the merits of these programs without another commission, which takes the decision out of the Congress' hands.

The commission, you know, places the power in the hands of a very few people. Does that problem create any reservations in your proposal?

Mr. MINGE. There is a member of the budget committee from my State who has counseled me that cutting the deficit and looking at specific programs is exactly what Congress is about. We don't need any commission at all to do that.

My response is that there are many programs which politically are so sensitive that for many of us, and I think usually a majority, we can't put our name to it on a program-by-program basis, which is the way we usually have to move ahead. As a consequence, I think the commission approach is necessary.

I would point you back to the Social Security Commission established in the early 1980's. Although it did not have immediate success, and has had a somewhat divisive report, within a fairly short period of time its recommendations were embraced and they were adopted.

And I think that that indicates that the commission has worked in its own way in another context. And it would be useful to at least try it. Nothing ventured, nothing gained.

Mr. KLEIN. Mr. Chairman, if there are no further questions for me, I would like to be excused. Again, I want to thank the committee.

Mr. CONYERS. Absolutely. I thank you for coming. Lock box is very much under consideration in this committee. As a matter of fact, we have sponsors on the committee itself.

So we appreciate your coming this way. Thank you all very much.

We will now just hold for a couple of minutes. We know that Henry Waxman is on the way.

Thank you, Dave, Pete, Herb.

We say to our colleague on Government Operations and Energy and Commerce, we have divided this hearing into emergency spending reform, cutting additional spending, and budget process reform. I know you have thought about all these matters, but today we look forward to your comments on cutting additional spending and the need for health care reform.

So we would now love to hear your comments, and we will of course put your printed statement into the record to be reported in its entirety.

STATEMENT OF HON. HENRY A. WAXMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. WAXMAN. Thank you very much, Mr. Chairman, members of the panel. I appreciate you holding these hearings and giving me an opportunity to appear before you.

Exactly 2 weeks ago a very important vote took place in the House; 392 Members voted against a proposal by Representative Stenholm to cap all entitlement programs at a level that would require \$150 billion in cuts over the next 5 years; 233 Members voted against the proposal by Representative Kasich to require the establishment of annual caps on each entitlement program except for Social Security.

For some of the advocates of budget process reform, a phrase that is becoming a code for capping entitlements, this vote was a defeat for fiscal responsibility. But I believe it was a victory for those of us who think that the Federal Government has an obligation to assure that the elderly and the poor have coverage for basic health care services.

It is obvious that the two fastest growing entitlements are Medicare, which CBO estimates will grow about \$87 billion over the next 5 years, and Medicaid, which CBO estimates will grow by about \$65 billion over the next 5 years.

Why are Medicare and Medicaid growing so fast? Because the number of elderly and poor people in need of health care is growing, and because the cost of hospital and physician and nursing home care that these Americans need and that these programs buy for them is growing. Of course there are other factors that affect the cost of these programs, such as the provision of unnecessary services, and the introduction of expensive new medical technology.

But the primary driving forces are the number and health needs of the elderly and poor and the inflation in the price of covered services. A cap on Medicare and Medicaid is not going to do anything about these driving forces. It won't cap the number of elderly and poor Americans or their need for health care.

It won't cap the prices of the medical care that these programs buy. It won't cap advances in medical technology. Instead it will simply allow the Federal Government to limit its financial exposure and shift the cost of these programs to someone else—the States, the providers, or the beneficiaries.

If you think there is a lot of waste, fraud, and abuse in those programs that can easily be pruned, you haven't been around during the last six budget reconciliation bills. In 1989, Medicare spending was reduced by a total of \$10 million over 5 years, in 1990, by \$43 billion, and in 1993, by \$56 billion. And in these same budget bills, we cut Medicaid spending by \$1.8 billion, \$600 million, and over \$7 billion.

These are the kinds of reforms we've already made on Medicare. We've tightened down the Medicare payment systems for hospitals and physicians so that they are now well below the rates that private insurers pay. We have raised the monthly premiums and cost sharing requirements for the program's 34 million elderly and disabled beneficiaries, and we have gone after private insurers to make sure that they and not Medicare pay out on policies that they have sold to program beneficiaries.

On the Medicaid side, we have allowed States to set payment rates for hospitals, nursing homes, and physicians even lower than those on Medicare. We have demanded and received rebates from drug manufacturers. We have closed loopholes that allowed wealthy individuals to transfer assets to their children in order to qualify themselves for Medicaid-financed nursing home care.

Can we reduce Medicare and Medicaid spending by imposing an entitlement cap? Yes. Under a cap, can these spending reductions be achieved responsibly? My answer would be no. Can they be achieved without shifting more costs to the poor and disabled and the elderly? No. Can they be achieved without shifting costs to the States and private employers? The answer is no.

Is there an alternative to an entitlement cap? Yes, it is called health care reform with cost controls. Earlier this week the majority leader outlined a health care reform bill that reduces the rate of increase in Medicare and Medicaid spending while at the same time guaranteeing basic health care services to all the Americans.

I would urge the members of this committee to reject entitlement caps. We do not have to renege on our commitment to basic health care for the elderly and the poor in order to reduce the rate of increase in Medicare and Medicaid spending.

I would be happy to answer questions you might have.

[The prepared statement of Mr. Waxman follows:]

Remarks of Henry A. Waxman, Chairman
Subcommittee on Health and the Environment
before the
Subcommittee on Legislation and National Security
on
Budget Process Reform
August 4, 1994

Mr. Chairman, thank you for holding this hearing and giving me an opportunity to appear this morning.

Exactly two weeks ago, a very important vote took place in the House.

Three hundred and ninety two members voted against a proposal by Representative Stenholm to cap all entitlement programs at a level that would require \$150 billion in cuts over the next 5 years.

Two hundred and thirty three members voted against a proposal by Representative Kasich to require the establishment of annual caps on each entitlement program except for Social Security.

To some of the advocates of "budget process reform" -- a phrase that is becoming code for "capping entitlements" -- this vote was a defeat for fiscal responsibility.

I believe it was a victory for those of us who believe that the Federal government has an obligation to assure that the elderly and the poor have coverage for basic health care services.

It is obvious that the two fastest growing entitlements are Medicare, which CBO estimates will grow about \$87 billion over the next 5 years, and Medicaid, which CBO estimates will grow by about \$65 billion over the next 5 years.

Why are Medicare and Medicaid growing so much?

Because the number of elderly and poor people in need of health care is growing.

And because the cost of hospital and physician and nursing home care that these Americans need and that these programs buy for them is growing.

Of course, there are other factors that affect the cost of these programs, such as the provision of unnecessary services and the introduction of expensive new medical technology.

But the primary driving forces are the number and health needs of the elderly and poor, and inflation in the price of covered services.

A cap on Medicare and Medicaid is not going to do anything about these driving forces.

It won't cap the number of elderly and poor Americans or their need for health care.

It won't cap the prices of the medical care that these programs buy.

It won't cap advances in medical technology.

Instead, it will simply allow the Federal government to limit its financial exposure and shift the costs of these programs to someone else -- the States, the providers, or the beneficiaries.

If you think that there's a lot of waste, fraud, and abuse in these programs that can easily be pruned, you haven't been around during the last six budget reconciliation bills.

In 1989, Medicare spending was reduced by a total of \$10 billion over 5 years; in 1990, by \$43 billion, and in 1993, by \$56 billion. And, in these same budget bills we cut Medicaid spending by \$1.8 billion, \$600 million, and over \$7 billion.

These cuts have reformed and tightened down on the Medicare payment systems for hospitals and physicians so that they are now well below the rates that private insurers pay.

We've raised the monthly premiums and cost-sharing requirements for the program's 34 million elderly and disabled beneficiaries. And we've gone after private insurers to make sure that they -- and not Medicare -- pay out on policies that they've sold to program beneficiaries.

On the Medicaid side, we've allowed States to set payment rates for hospitals, nursing homes, and physicians even lower than those under Medicare.

We've demanded -- and received -- rebates from drug manufacturers.

And we've closed loopholes that allowed wealthy individuals to transfer assets to their children in order to qualify themselves for Medicaid-financed nursing home care.

Can we reduce Medicare and Medicaid spending by imposing an entitlement cap? Yes.

Under a cap, can these spending reductions be achieved responsibly? No.

Can they be achieved without shifting more costs to the poor and disabled and elderly? No.

Can they be achieved without shifting costs to the States and to private employers?

No.

Is there an alternative to an entitlement cap? Yes. It's called health care reform with cost controls.

Earlier this week, the Majority Leader outlined a health care reform bill that reduces the rate of increase in Medicare and Medicaid spending while at the same time guaranteeing basic health care coverage to all Americans.

I would urge the Members of this Committee to reject entitlement caps. We do not have to renege on our commitment to basic health care for the elderly and the poor in order to reduce the rate of increase in Medicare and Medicaid spending.

Mr. CONYERS. Thank you very much for focusing in on the health care problem which has a lot to do with entitlements and their rapid growth.

Isn't it true in Medicaid that we keep adding benefits that cause additional costs? We find that there are certain procedures, certain treatments, certain benefits that are so minimal when they are added and they inevitably cause increase in Medicaid spending.

Is that one way of looking at this problem?

Mr. WAXMAN. We haven't added benefits. The Medicaid law says that the people entitled to the benefits under that program should get medically necessary physician and hospital services. If there is new technological breakthroughs that produce new services, those services are covered.

We haven't really added new coverage for benefits. We have, on the other hand, added new population groups that have been left out, because Medicaid, while it claims to be the health care program for the poor, only covers the very poorest of the poor. The majority of those below the poverty line are still not covered by the Medicaid program.

We have tried to increase the coverage for low-income women and children, even above the poverty line because it is important to give them that prenatal care, and I think we end up saving money when children are born healthier because prenatal care services were available.

Mr. CONYERS. Well, thanks, Henry Waxman. I know you have been working hard on this area for being years, and are very much involved in how we cut through to a new health care system, a reformed system, an improved system. And we will be looking carefully at the majority leader's proposal.

Al McCandless.

Mr. MCCANDLESS. Thank you, Mr. Chairman. Henry, you come to us this morning with a little cloud. The majority leader announced on the floor of the House we will be here until August 19. I am sure this has nothing to do with Banking. It has nothing to do with Government Operations. One has to assume it has something to do with the health program. I thought I would mention that in passing.

Mr. WAXMAN. I am not happy about it either.

Mr. MCCANDLESS. My wife assembles the family biannually. It happens to be that week, and people come from various locations. That is a personal matter. It has nothing to do with Government Operations, but it will have a lot to do with the operations at home.

I am interested, you refer to the cuts that have taken place in these various entitlements, and I think for purposes of our hearing here, we should define whether these are cuts on the baseline or cuts on the increased percentage.

This was an area in which the budgetary process expanded on the floor of the House this last time with all kinds of charts and graphs about how we were not actually cutting below what we are spending now, but rather we were reducing the expected future increases. We were cutting that increase that was proposed.

Is this still a part of what we are doing here in terms of your testimony?

Mr. WAXMAN. You are correct. We are projecting an increase to buy these medical services, and we are cutting back on what the increase would otherwise be.

Mr. MCCANDLESS. We are reducing the percentage of increase, then, we are cutting the baseline?

Mr. WAXMAN. That is right.

Mr. MCCANDLESS. Now, the \$64 question here, and this is what is being asked, and that is why we are sitting here, how do we balance the budget if we don't address some of these entitlements?

Mr. WAXMAN. There is no way we can balance the budget unless we address some of these entitlements. And I think the two entitlements that are growing the fastest are the two health care entitlements. My view is we have to do that in the context of health care reform that limits the growth of health care spending.

There are many people who are anxious to put limits on the public side of the health care expenditures without doing it on the private side. And that simply causes a shift onto the private side and doesn't reduce the cost for health care and the amount of money going into the health care system, a lot of which is wasted, I believe, because we have so much shifting going on in that health care sector.

Mr. MCCANDLESS. Thank you.

Thank you, Mr. Chairman.

Mr. CONYERS. Mr. Spratt.

Mr. SPRATT. Thank you, Mr. Waxman, for your testimony. I was just curious, do you have a breakdown of how much the increase in Medicaid has been due to the fact that we expanded eligibility to these new population groups?

For example, I think in 1991 we progressively expanded eligibility to children and families below a certain level, poverty level of households. How much of the increase since then is due to the fact that we have expanded the eligibility base?

Mr. WAXMAN. I can get that for you for the record.

[The information referred to follows:]

Supplementary Materials for the August 29, 1994 Hearing Record

The following material is to be submitted in the record for Congressman Henry A. Waxman:

According to the Kaiser Commission on the Future of Medicaid, the rate of growth of Medicaid spending between 1992 and 1993 was 11 percent, well below the growth rates of 27 and 29 percent for the previous two years. Most -- more precisely, 67 percent -- of this growth in Medicaid spending between 1992 and 1993 was due to an increase in the number of poor people enrolled. Increases in the number of children and pregnant women with incomes below certain poverty thresholds accounted for only 8 percent of the total growth in Medicaid spending during that year. In contrast, increases in the numbers of elderly and disabled persons eligible for cash assistance and therefore Medicaid accounted for 20 percent of the growth in Medicaid spending between 1992 and 1993. (Source: Kaiser Commission on the Future of Medicaid, "Medicaid Update: Expenditures and Beneficiaries in 1993" (August, 1994)).

Mr. WAXMAN. I would like to point out that when you look at it, you will see that the overwhelming increase in costs in Medicaid have been due to the inflationary factors in health care services. Even if we had not expanded eligibility in the 1980's, we would still have a huge increase in Medicaid costs. But I want to get that for you specifically.

Mr. SPRATT. I read the report by the Kaiser Commission a couple of years ago, which tried to deal with it; and they seemed to be blurred in their analysis.

What about a disproportionate share of hospitals? As a result of that rule, is it possible to do a take on the budget and estimate what it has cost us for allowing a disproportionate share of hospitals a greater rate of reimbursement?

Mr. WAXMAN. I don't know. Let me see if I can get a breakdown on that for you. We addressed that last year. I think that was an area for a lot of abuse. States were claiming large number of Federal Medicaid disproportionate share dollars and then in many cases not using these Federal funds for health care at all.

Mr. SPRATT. Tax schemes—that was my next question. As a result of what we did last year, can we expect to see some reasonably diminishing rate of increase? Like Al, we are not talking about cutting, we are just saving the ramp of the increases.

Mr. WAXMAN. Yes, we can, and I don't know the dollar figure, but the Congressional Budget Office has given us a dollar figure on the estimates for what the savings would be and what we would otherwise spend when we adopted the budget last year. This was an important part of the reductions in spending for the future in the Medicaid program.

Mr. SPRATT. Thank you very much.

Mr. CONYERS. So your view is that health reform becomes a very important part of ways to approach cutting additional spending, and that this is the key in dealing with this whole problem, and if we deal with it effectively in the health care bill, we will be dealing with it in a very important way here in terms of budget process.

Mr. WAXMAN. That is correct. I don't think we can talk about dealing with the budget deficit without health care until we can control the spending in health care through health care reform that brings in the system overall, both the private and public side. I think we are going to have a very, very difficult time, both to meet the expectations of people for services if they are elderly or poor, and for keeping those costs under some kind of manageable levels.

Mr. CONYERS. Thanks so much. It is a pleasure to have you here, Mr. Waxman.

The gentleman from Florida is here, Mr. Tom Lewis. Welcome to our subcommittee proceedings. I know you have had some thoughts about budget process reform. And in walks Bob Walker at the precisely correct moment. If you would like to come up, we are just starting out, Bob, on budget process reform.

So if you two want to begin, we would be delighted to hear from you as the minority.

**STATEMENT OF HON. ROBERT WALKER, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF PENNSYLVANIA**

Mr. WALKER. Thank you, Mr. Chairman. It is a pleasure to return to this room where so much good work has been done on the issue of government efficiency and saving money over a period of years. I am pleased to be with you. I think what you have is a prepared statement that I have on the subject of taxpayer debt buydown. I ask unanimous consent, if I could, that that be made a part of the record.

Mr. CONYERS. Without objection, and welcome back to your old committee.

Mr. WALKER. Thank you, Mr. Chairman. Just to summarize, this concept of taxpayer debt buydown is in fact something which is rather a unique, some have called a revolutionary concept on how we can begin getting the average citizen involved in the process of doing something about the deficit of this country.

In simple terms what debt buydown suggests is that individual citizens on their tax form could check off up to 10 percent of their taxes to go for one purpose alone and that is to buy down the Federal debt. However, if you do only that, it is a gimmick, because obviously we would continue to pile up deficit and debt would continue to climb.

What this idea suggests is that for every \$1 committed to debt buydown, \$1 also has to be subtracted from spending. It is either subtracted from spending by Congress making decisions about the prioritization of this spending of the country, or it is done across the board by the Office of Management and Budget, and thereby you have a built-in sequester if Congress doesn't do its job.

Now, it has been scored by a number of outside groups, including most of the taxpayers' organizations in the country who have come out in favor of this idea. More importantly, it has been scored by CBO. CBO was asked to look at this idea on an optimal basis most recently when this bill had a hearing before the subcommittee on select revenue of the Ways and Means Committee.

CBO says that this concept if worked optimally could balance the budget in 6 years and could totally wipe out every penny of national debt now on the books within a period of 15 years. And so what you have here is a large element of hope that there is indeed a process that involves the American people that not only brings us to a balanced budget, but actually begins to reduce the debt and even wipes the debt out.

In my view, we need to put that kind of program in place. There are a large number of Americans who really do believe that they have some responsibility to become involved in government themselves. This gives them that opportunity.

There are also large numbers of Americans who believe something has to be done about debt and deficit. This gives them a chance to become involved in an issue that many regard as No. 1 on their agenda.

So I would urge this committee to consider this idea as one of the ways that we can approach both balancing the budget and beginning to reduce the debt, and do so in a way that engenders citizen participation and interest, because remember, under this idea, Congress would do no spending cuts that the American people had

not authorized to be done. That empowers not only them. It empowers us because then we are acting in their name in doing spending cuts that all of us realize are very difficult to do.

And so I would urge the committee to take a look at the idea, and I would be happy to answer any questions, and I would certainly be happy to work with you in the future toward trying to implement this concept.

[The prepared statement of Mr. Walker follows:]

COMMITTEE ON GOVERNMENT
OPERATIONS
SUBCOMMITTEE ON LEGISLATION AND
NATIONAL SECURITY

HEARING ON H.R.429
THE TAXPAYER DEBT BUY-DOWN ACT

Thursday, August 4, 1994

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- - Testimony submitted to Subcommittee on Legislation and National Security for hearing on H.R. 429

103D CONGRESS
1ST SESSION

H. R. 429

To amend the Internal Revenue Code of 1986 to allow individuals to designate that up to 10 percent of their income tax liability be used to reduce the national debt, and to require spending reductions equal to the amounts so designated.

IN THE HOUSE OF REPRESENTATIVES

JANUARY 5, 1993

Mr. WALKER (for himself, Mr. GINGRICH, Mr. BARTON of Texas, Mr. BLILEY, Mr. CAMP, Mr. COBLE, Mr. CRAPO, Mr. DOOLITTLE, Mr. DORNAN, Mr. EWING, Mr. FAWELL, Mr. GEKAS, Mr. GOSS, Mr. HANCOCK, Mr. HEFLEY, Mr. KINGSTON, Mr. KOLBE, Mr. LEWIS of Florida, Mr. MCCOLLUM, Mr. NUSSLE, Mr. OXLEY, Mr. PACKARD, Mr. RAVENEL, Mr. ROHRBACHER, Mr. SANTORUM, Mr. THOMAS of Wyoming, Mr. UPTON, Mr. ZELIFF, and Mr. ZIMMER) introduced the following bill; which was referred jointly to the Committees on Ways and Means and Government Operations

A BILL

To amend the Internal Revenue Code of 1986 to allow individuals to designate that up to 10 percent of their income tax liability be used to reduce the national debt, and to require spending reductions equal to the amounts so designated.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

1 **SECTION 1. SHORT TITLE.**

2 This Act may be cited as the "Taxpayer Debt Buy-
3 Down Act".

4 **SEC. 2. DESIGNATION OF AMOUNTS FOR REDUCTION OF**
5 **PUBLIC DEBT.**

6 (a) **IN GENERAL.**—Subchapter A of chapter 61 of the
7 Internal Revenue Code of 1986 (relating to returns and
8 records) is amended by adding at the end the following
9 new part:

10 **"PART IX—DESIGNATION FOR REDUCTION OF**
11 **PUBLIC DEBT.**

 "Sec. 6097. Designation.

12 **"SEC. 6097. DESIGNATION.**

13 “(a) **IN GENERAL.**—Every individual with adjusted
14 income tax liability for any taxable year may designate
15 that a portion of such liability (not to exceed 10 percent
16 thereof) shall be used to reduce the public debt.

17 “(b) **MANNER AND TIME OF DESIGNATION.**—A des-
18 ignation under subsection (a) may be made with respect
19 to any taxable year only at the time of filing the return
20 of tax imposed by chapter 1 for the taxable year. The des-
21 ignation shall be made on the first page of the return or
22 on the page bearing the taxpayer's signature.

23 “(c) **ADJUSTED INCOME TAX LIABILITY.**—For pur-
24 poses of this section, the term ‘adjusted income tax liabil-
25 ity’ means income tax liability (as defined in section

1 6096(b)) reduced by any amount designated under section
2 6096 (relating to designation of income tax payments to
3 Presidential Election Campaign Fund).”

4 (b) CLERICAL AMENDMENT.—The table of parts for
5 such subchapter A is amended by adding at the end the
6 following new item:

“Part IX. Designation for reduction of public debt.”

7 (c) EFFECTIVE DATE.—The amendments made by
8 this section shall apply to taxable years ending after the
9 date of the enactment of this Act.

10 SEC. 3. PUBLIC DEBT REDUCTION TRUST FUND.

11 (a) IN GENERAL.—Subchapter A of chapter 98 of the
12 Internal Revenue Code of 1986 (relating to trust fund
13 code) is amended by adding at the end the following sec-
14 tion:

15 “SEC. 9512. PUBLIC DEBT REDUCTION TRUST FUND.

16 “(a) CREATION OF TRUST FUND.—There is estab-
17 lished in the Treasury of the United States a trust fund
18 to be known as the ‘Public Debt Reduction Trust Fund’,
19 consisting of any amount appropriated or credited to the
20 Trust Fund as provided in this section or section 9602(b).

21 “(b) TRANSFERS TO TRUST FUND.—There are here-
22 by appropriated to the Public Debt Reduction Trust Fund
23 amounts equivalent to the amounts designated under sec-
24 tion 6097 (relating to designation for public debt reduc-
25 tion).

1 “(c) EXPENDITURES.—Amounts in the Public Debt
2 Reduction Trust Fund shall be available only for purposes
3 of paying at maturity, or to redeem or buy before matu-
4 rity, any obligation of the Federal Government included
5 in the public debt. Any obligation which is paid, redeemed,
6 or bought with amounts from such Trust Fund shall be
7 canceled and retired and may not be reissued.”

8 (b) CLERICAL AMENDMENT.—The table of sections
9 for such subchapter is amended by adding at the end the
10 following new item:

“Sec. 9512. Public Debt Reduction Trust Fund.”

11 (c) EFFECTIVE DATE.—The amendments made by
12 this section shall apply to amounts received after the date
13 of the enactment of this Act.

14 **SEC. 4. TAXPAYER-GENERATED SEQUESTRATION OF FED-**
15 **ERAL SPENDING TO REDUCE THE PUBLIC**
16 **DEBT.**

17 (a) SEQUESTRATION TO REDUCE THE PUBLIC
18 DEBT.—Part C of the Balanced Budget and Emergency
19 Deficit Control Act of 1985 is amended by adding after
20 section 253 the following new section:

21 **“SEC. 253A. SEQUESTRATION TO REDUCE THE PUBLIC**
22 **DEBT.**

23 “(a) SEQUESTRATION.—Notwithstanding sections
24 255 and 256, within 15 days after Congress adjourns to
25 end a session, and on the same day as sequestration (if

1 any) under sections 251, 252, and 253, but after any se-
2 questration required by those sections, there shall be a se-
3 questration equivalent to the estimated aggregate amount
4 designated under section 6097 of the Internal Revenue
5 Code of 1986 for the last taxable year ending before the
6 beginning of that session of Congress, as estimated by the
7 Department of the Treasury on May 1 and as modified
8 by the total of (1) any amounts by which net discretionary
9 spending is reduced by legislation below the discretionary
10 spending limits (or, in the absence of such limits, any net
11 deficit change from the baseline amount calculated under
12 section 257, except that such baseline for fiscal year 1996
13 and thereafter shall be based upon fiscal year 1995 en-
14 acted appropriations less any 1995 sequesters) and (2) the
15 net deficit change that has resulted from direct spending
16 legislation.

17 “(b) APPLICABILITY.—

18 “(1) IN GENERAL.—Except as provided by
19 paragraph (2), each account of the United States
20 shall be reduced by a dollar amount calculated by
21 multiplying the level of budgetary resources in that
22 account at that time by the uniform percentage nec-
23 essary to carry out subsection (a). All obligational
24 authority reduced under this section shall be done in
25 a manner that makes such reductions permanent.

1 “(2) EXEMPT ACCOUNTS.—No order issued
2 under this part may—

3 “(A) reduce benefits payable the old-age,
4 survivors, and disability insurance program es-
5 tablished under title II of the Social Security
6 Act;

7 “(B) reduce payments for net interest (all
8 of major functional category 900); or

9 “(C) make any reduction in the following
10 accounts:

11 “Federal Deposit Insurance Corpora-
12 tion, Bank Insurance Fund;

13 “Federal Deposit Insurance Corpora-
14 tion, FSLIC Resolution Fund;

15 “Federal Deposit Insurance Corpora-
16 tion, Savings Association Insurance Fund;

17 “National Credit Union Administra-
18 tion, credit union share insurance fund; or

19 “Resolution Trust Corporation.”.

20 (b) REPORTS.—Section 254 of the Balanced Budget
21 and Emergency Deficit Control Act of 1985 is amended—

22 (1) in subsection (a), by inserting before the
23 item relating to August 10 the following:

24 “May 1 . . . Department of Treasury report to Con-
25 gress estimating amount of income tax designated pursu-

1 ant to section 6097 of the Internal Revenue Code of
2 1986.”;

3 (2) in subsection (d)(1), by inserting “, and se-
4 questration to reduce the public debt,”;

5 (3) in subsection (d), by redesignating para-
6 graph (5) as paragraph (6) and by inserting after
7 paragraph (4) the following new paragraph:

8 “(5) SEQUESTRATION TO REDUCE THE PUBLIC
9 DEBT REPORTS.—The preview reports shall set forth
10 for the budget year estimates for each of the follow-
11 ing:

12 “(A) The aggregate amount designated
13 under section 6097 of the Internal Revenue
14 Code of 1986 for the last taxable year ending
15 before the budget year.

16 “(B) The amount of reductions required
17 under section 253A and the deficit remaining
18 after those reductions have been made.

19 “(C) The sequestration percentage nec-
20 essary to achieve the required reduction in ac-
21 counts under section 253A(b).”; and

22 (4) in subsection (g), by redesignating para-
23 graphs (4) and (5) as paragraphs (5) and (6), re-
24 spectively, and by inserting after paragraph (3) the
25 following new paragraph:

1 “(4) SEQUESTRATION TO REDUCE THE PUBLIC
2 DEBT REPORTS.—The final reports shall contain all
3 of the information contained in the public debt tax-
4 ation designation report required on May 1.”.

5 (c) EFFECTIVE DATE.—Notwithstanding section
6 275(b) of the Balanced Budget and Emergency Deficit
7 Control Act of 1985, the expiration date set forth in that
8 section shall not apply to the amendments made by this
9 section. The amendments made by this section shall cease
10 to have any effect after the first fiscal year during which
11 there is no public debt.

O

SUMMARY OF THE TAXPAYER DEBT BUY-DOWN ACT

- > The proposal would amend the IRS code to allow taxpayers the opportunity to voluntarily designate up to 10 percent of their INCOME TAX LIABILITY for the purpose of deficit reduction. When the budget is balanced, monies designated would apply to debt reduction.
- > All monies designated would be placed in a national debt reduction fund established in the Department of Treasury.
- > On May 1st of each year, the Treasury Department would be required to provide Congress with an estimate of the total amount designated by the taxpayers.
- > Congress would then have from May until the end of session to find alternative spending cuts in discretionary spending or entitlements.
- > If Congress - in conjunction with the President - failed to enact spending reductions to meet the amount designated by the taxpayers, an across-the-board sequester of all government accounts - except Social Security, Deposit Insurance, and net interest - would occur at the end of the session.
- > If Congress and the President enacted only half of the necessary cuts, the sequester would ensure the other half.
- > ALL SPENDING CUTS WOULD BE PERMANENT -- THE CUTS WOULD PERMANENTLY REDUCE THE SPENDING BASELINE.
- > Although nothing in the legislation would prohibit Congress from increasing taxes on their own, TAX INCREASES COULD NOT BE USED TO SUBSTITUTE FOR THE SPENDING REDUCTIONS DESIGNATED BY TAXPAYERS.

Most Common Misconceptions and Disinformation on the 10% Debt Buy-Down Proposal

- 1) *"It's a gimmick that won't really do anything."*

(CBO's own analysis documents it would work as claimed. What hasn't done anything is Congressional budget reduction efforts - the 1994 deficit is projected at \$253 billion. Trust and give the American people a chance!)

- 2) *"The offsetting spending controls are unspecified and unlikely to be enacted."*

(This simply reflects a total lack of understanding of the provisions of the proposal itself. The spending reductions could not be more specific: every Federal program, including defense, international, domestic and entitlements (except for the Social Security Retirement Fund, deposit insurance and interest on the debt) would be cut by an equal percent across-the-board to offset the amount of taxes collectively set aside for debt reduction. After passage of the law giving the taxpayer this power, no further spending cuts would need to be enacted by an indecisive Congress.)

- 3) *"It is undemocratic -- only allowing people with income to initiate spending cuts that affect people without"*

(It is the opposite of undemocratic to give the middle-class worker who pays most of the taxes in this country a corresponding say over how their money is spent. Taxpayers would still have no direct control over how 90% of their taxes are spent.)

- 4) *"This proposal is just another checkoff."*

(First of all, this proposal is not really a checkoff at all, but a new taxpayer right. It would involve a taxpayer filling in on a new line on their 1040 the amount of their total tax (from \$0 up to 10% of such tax) that they want to be used only to reduce the debt. Most income tax checkoffs (such as state and local checkoffs) involve additional contributions by the taxpayer in addition to their tax. They increase the taxpayers' liability or reduce their refund. This proposal would not increase the taxpayer's payment one cent. Income tax checkoffs (such as the Presidential campaign fund) also generally earmark additional spending (and therefore debt) -- the opposite intent of this proposal.

- 5) *"Checkoffs are not popular and don't get good participation."*

(Not to differentiate between the taxpayers' motivation to earmark their hard-earned money for Presidential candidates they do not support and for solving the biggest problem facing this country does the American people a disservice.)

- 6) *"It will never pass Congress."*

(That's why we need a new Congress. America deserves a better Congress!)

ROBERT S. WALKER
18TH DISTRICT, PENNSYLVANIA

DEPUTY REPUBLICAN WHIP

COMMITTEE
REPUBLICAN CHAIRMAN
SCIENCE, SPACE, AND TECHNOLOGY

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Washington, DC 20515-3816

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Cosponsors
for
THE TAXPAYER DEBT BUY-DOWN ACT

Representative Robert S. Walker
Representative Newt Gingrich
Representative John Kasich
Representative Wayne Allard
Representative Dick Armey
Representative Spencer Bachus
Representative Richard Baker
Representative Bill Baker
Representative Cass Ballenger
Representative Roscoe Bartlett
Representative Michael Bilirakis
Representative Lucien Blackwell
Representative Thomas Bliley
Representative Peter Blute
Representative John Boehner
Representative Henry Bonilla
Representative Jim Bunning
Representative Dan Burton
Representative Dave Camp
Representative Charles Canady
Representative Howard Coble
Representative Larry Combest
Representative Christopher Cox
Representative Michael Crapo
Representative John Doolittle
Representative Bob Dornan
Representative Jennifer Dunn
Representative Terry Everett
Representative Thomas Ewing
Representative Harris Fawell
Representative Bob Franks
Representative Gary Franks
Representative Tillie Fowler
Representative Dean Gallo
Representative George Gekas
Representative Pete Geren
Representative Paul Gillmor
Representative Bob Goodlatte
Representative Porter Goss
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 Representative Ernest Istook
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 Representative Jay Kim
 Representative Jack Kingston
 Representative Scott Klug
 Representative Joe Knollenberg
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 Representative Jon Kyl
 Representative David Levy
 Representative Tom Lewis
 Representative Jim Lightfoot
 Representative John Linder
 Representative Bob Livingston
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 Representative Alfred McCandless
 Representative Bill McCollum
 Representative Jim McCrery
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 Representative Carlos Moorhead
 Representative Jim Nussle
 Representative Mike Oxley
 Representative Ron Packard
 Representative Bill Paxon
 Representative Richard Pombo
 Representative Rob Portman
 Representative Deborah Pryce
 Representative Jim Ramstead
 Representative Arthur Ravenel
 Representative Dana Rohrabacher
 Representative Edward Royce
 Representative Rick Santorum
 Representative Dan Schaefer
 Representative Steven Schiff
 Representative F. James Sensenbrenner
 Representative Christopher Shays
 Representative Bob Smith
 Representative Nick Smith
 Representative Gerald Solomon
 Representative Cliff Stearns

Representative Bob Stump
Representative Craig Thomas
Representative Peter Torkildsen
Representative Fred Upton
Representative Barbara Vucanovich
Representative Curt Weldon
Representative Bill Zeff
Representative Dick Zimmer

4/13/94

PEOPLE AND ORGANIZATIONS WHO
SUPPORT
H.R. 429
THE TAXPAYER DEBT BUY-DOWN ACT

Mr. Lawrence Kudlow, Economics Editor, *National Review*

Americans for a Balanced Budget

Americans for Tax Reform

The American Legislative Exchange Council (ALEC)

Association of Concerned Taxpayers for a Fair
and Simple Tax

The Council for Citizens Against Government Waste
Citizens for a Sound Economy

Dr. Norman B. Ture, President, Institute for the
Research on the Economics of Taxation (IRET)

National Taxpayers Union (NTU)

U.S. Business and Industrial Council

National Federation of Independent Business (NFIB)

JUNE 1993



M A N D A T E

YOUR OPPORTUNITY TO DETERMINE NFIB'S LOBBYING POSITION ON KEY LEGISLATIVE ISSUES

1. SHOULD TAXPAYERS BE ALLOWED to designate up to 10% of their tax payment to reduce the deficit?

- ☐ Yes ☐ Undecided
☐ No ☐ No Interest in This Issue

Background: The federal deficit will top \$300 billion this year. Some lawmakers have proposed creating a checkoff system on IRS forms permitting taxpayers to direct up to 10% of their tax payments into a special deficit reduction fund. For each designated tax dollar the fund receives Congress would be required to cut federal spending by an equal amount.

Supporters contend Congress lacks the discipline to cut federal spending on its own. A checkoff system would give individual taxpayers the means to directly reduce the growth in government spending and cut the deficit. Tax checkoffs could potentially slash the deficit by \$500 billion in five years.

Opponents say the economy could be hurt, and business recovery stalled, if the system triggered a sudden drop in federal spending. Society's truly needy would be at real risk if domestic programs struggling under earlier budget cuts were automatically reduced more. Other critics say the amount of money designated for this deficit reduction fund likely would be insignificant.

2. SHOULD PART-TIME WORKERS be entitled to partial benefits?

- ☐ Yes ☐ Undecided
☐ No ☐ No Interest in This Issue

Background: One of four U.S. workers is employed part time. Full-time employees often receive company sponsored benefits such as health care and paid vacations. Some lawmakers want to require employers to extend partial benefits to part-time employees, prorated to the number of hours they work.

Supporters say the growth in part-time employees represents a fundamental and permanent shift in the work force. Giving part-timers benefits would help small firms attract and keep skilled workers, lowering staff turnover and increasing productivity. Many part-timers can't afford their own health and retirement plans. Providing partial benefits would save employers money by reducing uncompensated medical care costs nationwide.

Opponents say part-time labor-intensive

Send A Message To Washington

Write a comment for Congress on this ballot:

Jump in payroll expenses partial benefits could cost. The high turnover among part-timers means figuring benefits would be a paperwork nightmare. New benefits are unnecessary as most part-timers are covered by another family member's plan.

3. SHOULD THE MINIMUM WAGE BE indexed for inflation?

- ☐ Yes ☐ Undecided
☐ No ☐ No Interest in This Issue

Background: Congress is considering legislation to annually increase the current hourly minimum wage by a percentage equal to the rate of inflation.

Supporters contend increasing the minimum wage would help the economy as consumer spending goes up whenever the minimum wage rate rises. Three of ten minimum wage earners head households and can't support families on a minimum wage constantly being eroded by inflation. Many state welfare benefits exceed the minimum wage. Tying base wages to inflation would give the poor more incentive to seek jobs, lowering welfare costs.

Opponents argue few poor families would benefit as only 4.6 percent of adults over age 25 work for minimum wage. Automatically adjusting the base wage for inflation would hike up all wages; hundreds of thousands of jobs would be lost because firms couldn't afford to pay all employees higher salaries. Lower tax receipts plus higher unemployment payments could cost taxpayers nearly \$7 billion.

4. SHOULD THE MEDICAL PORTION of workers' compensation be moved into a new standard health plan?

- ☐ Yes ☐ Undecided
☐ No ☐ No Interest in This Issue

Background: The cost of both workers' com-

rocketing. As part of its health care reform package, the Clinton administration is considering merging the medical portion of workers' comp with group health insurance, creating an integrated employer-provided health plan.

Supporters say integrating plans would increase efficiency and save employers money. The workers' comp program would benefit from federal health care reforms and employers would pay for just one medical plan. The legal protection shielding employers from WC damage suits would be left in place.

Opponents argue merging health coverage with state required workers' comp will lead to mandated employer provided medical insurance. Smaller firms that couldn't afford coverage would be forced out of business. Savings are overstated as firms would still need to buy wage replacement insurance. Merging the two systems means WC benefits could be subject to co-payments and deductibles — exposing firms to possible lawsuits.

5. SHOULD INDIVIDUALS BE permitted to fully deduct the cost of health insurance if they are not covered by an employer plan?

- ☐ Yes ☐ Undecided
☐ No ☐ No Interest in This Issue

Background: Before 1981, individuals who bought their own health insurance could claim a tax deduction. Some lawmakers have proposed making health insurance purchased by individuals for themselves and their families 100 percent deductible.

Supporters say this would make health insurance financially accessible to at least 10 million people not currently covered. With more people covered there would be less government spending on health care programs. The pressure on employers to provide medical plans would be reduced, helping break the link between health coverage and employment.

Opponents say taxpayers can't afford the \$4 billion a year in lost federal revenues this deduction could cost, considering the size of the deficit. Those most needing coverage — such as the workers earning less than \$15,000 a year who make up half the uninsured population — still couldn't afford to buy insurance. Making health insurance fully deductible wouldn't help those who can afford to buy a policy but cannot get coverage because of their

Printed especially for Representative Robert S Walker

Questions:

Results in percent:

		Your District (16)	Your State (PA)	The Nation
1. Should taxpayers be allowed to designate up to 10% of their tax payment to reduce the deficit?	Favored :	76	76	77
	Opposed :	13	15	14
	Undecided:	11	9	9
2. Should part-time workers be entitled to partial benefits?	Favored :	9	11	11
	Opposed :	84	83	83
	Undecided:	7	6	6
3. Should the minimum wage be indexed for inflation?	Favored :	15	19	17
	Opposed :	78	74	76
	Undecided:	7	7	7
4. Should the medical portion of workers' compensation be moved into a new standard health plan?	Favored :	23	21	19
	Opposed :	57	60	63
	Undecided:	20	19	18
5. Should individuals be permitted to fully deduct the cost of health insurance if they are not covered by an employer plan?	Favored :	77	81	82
	Favored :	13	12	11
	Undecided:	10	7	7



Legislative Update

"We The People"

NATIONAL "WRITE YOUR CONGRESSMAN" INC., Founders Bldg., 9696 Skillman, Dallas, TX 75243-8253

VOL. 93, NO. 102

Dear Member:

This month we are asking our members to voice their thinking on the "Freedom of Choice Act" which would prohibit States from limiting access and availability of a woman's choice to have an abortion. This is a very controversial issue and we suggest that you also express your views to your Senators and President Clinton. Please tell them that you are a member of N.W.Y.C., there is strength in numbers.

President Bill Clinton
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20500

The Honorable _____
United States Senate
Washington, D.C. 20510

CONGRESSIONAL DISTRICTS

Due to the shift in population, almost all Congressional Districts changed their boundaries. Some states lost Members of Congress, while others gained. Therefore, some of our members will be writing to a different Member of Congress. All mailings should include the Congressperson where you vote.

VOTER'S VOICE VOTE — DECEMBER 1992

	NATIONAL RESULTS		
	YES	NO	UNDECIDED
1. DEFICIT REDUCTION: Should Congress pass the "checkoff" plan to reduce the deficit?	75%	17%	8%
2. SHIFT JOBS OVERSEAS: Do you agree with Congressman George Brown that our Government should stop shifting jobs overseas?	70%	16%	14%
3. FIRST-TIME HOME BUYERS: Do you agree with Congresswoman Nancy Johnson that a tax credit should be given to first-time home buyers to spur economic growth?	65%	29%	6%

CONTENTS

VOTER REGISTRATION
MEDICAL LEAVE
BUSINESS INVESTMENT
TAX FAIRNESS
FREEZE SPENDING
WETLANDS REFORM
MONEY LAUNDERING
MINIMUM WAGE
FREEDOM OF CHOICE

BILLS IN CONGRESS

National Voter Registration Act of 1993:



Hon. Al Swift

Rep. Al Swift (D-WA) says, "Mr. Speaker, I am pleased today to introduce H.R. 2, the National Voter Registration Act of 1993. This bill is not only a priority of President-elect Bill Clinton, and a priority of the leadership of both Houses of Congress, but it certainly is also a priority for the American people. All those people, some of them on the floor today, who argued so hard against the basic principle of this bill in the last two Congresses, have been proven wrong by the statistics from the 1992 election. Increased registration produced an increase in voter turnout, and where did the bulk of that increase in registration occur — in States that implemented the registration procedures of

H.R. 2. The so-called motor-voter States showed a 3-percent increase in 1992 registration over 1988, and a voter turnout increase of almost 7 percent. All the other States had a registration increase of less than 1 percent and a voter turnout increase of 3 percent. The motor-voter States led the way in citizen participation in 1992 and, with the enactment and implementation of H.R. 2, the whole country will enjoy a similar participation bonus in 1996. H.R. 2 is not a new concept. It was passed by the House in the 101st Congress, only to be filibustered to death in the Senate. It was passed by both the House and Senate in the 102nd Congress, only to be vetoed by President Bush . . . I would say to my distinguished new colleagues, those who for the first time have been sworn in today as Members of Congress to defend our Constitution, that H.R. 2 offers them a unique opportunity to

(CONTINUED ON NEXT PAGE)

Here are some proposals on various domestic issues. For each one, please tell me if you think it is a very good idea, a somewhat good idea, a somewhat poor idea, or a very poor idea.

	Very Good Ideas	Somewhat Good Ideas	Somewhat Poor Ideas	Very Poor Ideas	Dep.	DK/ Ref.	Total Good Ideas	Poor Ideas
Q35. Give taxpayers the right to check a box on their tax returns so that up to ten percent of their taxes can go to reducing the national debt, and require that for every dollar set aside to cut the debt, current spending will be cut by an equal amount.	39%	31	10	16	1	3	70%	26

In the proposal to give taxpayers a new check-off...

Q50. If you could check a box on your tax return so that up to ten percent of your taxes went to reducing the national debt and that current government spending would be cut by an equal amount, how likely would you be to check this box - definitely, probably, probably not, or definitely not?

Definitely	26%
Probably	40
Probably not	16
Definitely not	14
Don't know	2
Refused/NA	*

Collapsed

Definitely/Probably	66%
Probably not/Definitely not	32

Q51. (If definitely or probably in Q50) What percent of your tax payment, up to ten percent, would you specify for reducing the national debt?

0	4%
1-4	6
5	15
5-9	5
10	31
Mean	7.2
DK/Refused	6
Not asked	34

National Survey Aug 29 - Sept. 1, 1992
N = 1200 registered voters

The following charts illustrate the most recent CBO estimates of H.R. 429. For an explanation of the statistics, please refer to the CBO letter which immediately follows the charts.

TABLE 1. CBO BASELINE PROJECTIONS (By fiscal year, in billions of dollars)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Revenues											
Individual income taxes	512	545	593	628	661	699	735	778	811	851	894
All other	639	699	740	774	811	847	881	912	956	997	1,040
Total	1,150	1,244	1,332	1,403	1,472	1,547	1,617	1,690	1,768	1,848	1,934
Outlays											
Social Security a/	302	319	337	354	372	391	410	431	452	475	499
Interest a/	198	203	217	230	242	253	265	278	292	311	327
Deposit Insurance a/	-26	14	-10	-10	-8	-4	-4	-4	-3	-3	-3
Medicare	143	160	178	194	216	239	264	292	323	357	395
Medicaid	76	88	100	112	125	139	155	172	190	210	231
Other mandatory programs	243	241	240	239	256	266	275	285	295	305	316
Discretionary spending	547	542	542	548	547	547	564	581	598	616	634
Offsetting receipts b/	-67	-70	-74	-76	-80	-85	-89	-93	-87	-102	-107
Total	1,416	1,497	1,529	1,592	1,670	1,747	1,840	1,941	2,050	2,168	2,292
Deficit (-) or Surplus (+)	-266	-253	-196	-190	-198	-200	-223	-251	-282	-320	-359
Debt Held by the Public	3,249	3,507	3,713	3,919	4,137	4,357	4,601	4,873	5,176	5,517	5,896
Memoorandum											
Total Nonexempt Outlays	1,009	1,031	1,060	1,094	1,144	1,192	1,259	1,329	1,406	1,488	1,576

SOURCE: Congressional Budget Office, September 1993 baseline projections. The projections assume compliance with the discretionary spending caps in the 1990 Budget Enforcement Act and the Omnibus Budget Reconciliation Act of 1993.

a. Program exempt from sequestration under Congressman Walker's proposal.

b. Offsetting receipts are effectively exempt because they are not associated with sequesterable budgetary resources.

TABLE 2. ILLUSTRATIVE MAXIMUM EFFECTS OF PROPOSAL (By fiscal year, in billions of dollars)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Maximum Effect on Deficit and Debt											
Assumed Checkoff Amount a/	51	55	59	63	66	70	74	78	81	85	89
Automatic Spending Cuts b/											
Nonexempt programs c/	0	0	-51	-107	-172	-242	-321	-409	-506	-613	-731
Interest savings	<u>0</u>	<u>0</u>	<u>-1</u>	<u>-5</u>	<u>-15</u>	<u>-27</u>	<u>-45</u>	<u>-68</u>	<u>-98</u>	<u>-136</u>	<u>-182</u>
Total	0	0	-52	-113	-186	-269	-366	-477	-604	-749	-913
Resulting Outlays	1,416	1,497	1,476	1,479	1,484	1,478	1,474	1,463	1,445	1,419	1,380
Deficit (-) or Surplus (+)	-266	-253	-144	-76	-12	69	143	227	323	429	554
Debt Held by the Public	3,249	3,507	3,661	3,753	3,785	3,726	3,614	3,409	3,107	2,699	2,166
Maximum Effect on Sequesterable Programs											
Baseline Outlays for Nonexempt Programs d/	1,009	1,031	1,060	1,094	1,144	1,192	1,259	1,329	1,406	1,488	1,576
Cumulative Sequestration c/	0	0	-51	-107	-172	-242	-321	-409	-506	-613	-731
Resulting Outlays for Nonexempt Programs	1,009	1,031	1,008	986	972	950	937	920	900	874	845
Percentage Reduction	0	0	-5	-10	-15	-20	-26	-31	-36	-41	-46

SOURCE: Congressional Budget Office.

- a. CBO has based this analysis on the assumption, previously specified by Congressman Walker, that all individual income tax payers would choose the maximum checkoff, 10 percent of liabilities. Although tax collections (on a fiscal year basis, as shown earlier in Table 1) are not the same as liabilities (which are on a calendar year basis), they are similar enough for this illustration.
- b. Taxpayers would designate the checkoff in returns filed on or before April 15, and sequestration would begin the following October (or at the end of the Congressional session, if later). Hence, there is a two-year lag between the time taxpayers incur liabilities and the spending cuts that they could order.
- c. According to Congressman Walker's staff, it is intended that a single year's checkoff should generate savings in all future years, as programs are barred from returning to previous spending plans or benefit formulas. Additional legislative language would be needed to achieve this result.
- d. In Congressman Walker's proposal, only Social Security, deposit insurance, and net interest are exempt. Offsetting receipts are effectively exempt because they are not associated with sequesterable budgetary resources. The Congress can substitute other spending reductions (but not revenue increases) for the required sequestration.



CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Robert D. Reischauer
Director

February 26, 1993

Honorable Robert S. Walker
U.S. House of Representatives
Washington, D.C. 20515

Dear Congressman:

This responds to your letter of January 26, asking for an updated CBO analysis of your proposal to permit individual income taxpayers to determine automatic spending reductions. Please note that our analysis is illustrative only, and—as you specifically requested—assumes that taxpayers choose the maximum checkoff permitted by your bill.

Your proposal would not affect tax liabilities at all, but would allow taxpayers to designate as much as 10 percent of their tax liabilities to go into a "Public Debt Reduction Trust Fund." The proposal provides for automatic spending reductions that are linked to the amount checked off by taxpayers. That is, the proposal affects the spending side of the budget, not the tax side. Cuts would apply across the board to all programs except Social Security, deposit insurance, and net interest.

At present, CBO has no basis to judge how many taxpayers would choose this option, and for how many years. Other income tax checkoffs (such as for the Presidential campaign fund, or state and local income tax checkoffs) generally permit *additional* spending for the stated purposes. Under your proposal, taxpayers have no choice about the mix of spending cuts; nor can they voice a desire for greater spending—factors that may limit their participation. The illustration presented below depicts the largest effects possible under your proposal.

Honorable Robert S. Walker

Page 2

The starting point. The starting point for our analysis is CBO's baseline projections, recently published in *The Economic and Budget Outlook: Fiscal Years 1994-1998* and summarized in Table 1. These sketch the likely path of spending and revenues if current laws and policies remain unchanged. The table divides revenues between individual income taxes and other sources; only the former is tied to spending cuts under your plan. The table also lists major categories of spending, and shows that about one-third of spending would be exempt from automatic reductions under your proposal.

Illustrative effects of your plan. Maximum effects of your plan are shown in Table 2, assuming that taxpayers take full advantage in all years.

Your proposed income tax checkoff would affect spending with a lag. The legislation provides that taxpayers cast their votes with their annual tax returns, filed on or before April 15. For example, taxpayers will file returns for 1993 liabilities by April 15, 1994. The Treasury would inform the Congress on May 1 of the required cuts. Sequestration, if any, would begin in October 1994, the start of fiscal year 1995 (or somewhat later if the Congress is still in session). During the intervening period, the Congress can come up with substitute spending cuts to avert a sequestration; revenue increases, however, could not substitute for the required sequestration.

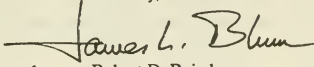
Your legislation also provides that "obligational authority...[shall be reduced] in a manner that makes such reductions permanent." In previous correspondence, you have made clear that this provision is intended to bar programs from returning to previous spending levels or benefit formulas after a sequestration. That is, even a single year's checkoff would result in multiyear outlay savings, and savings would grow dramatically if taxpayers persisted in choosing the checkoff. Although additional legislative language is needed to achieve this outcome, we have based our illustration on your intent.

Under these critical assumptions that you specified, spending cuts could total as much as \$50 billion in 1995, the first year. They could reach nearly \$400 billion in 2000 and--together with interest savings--could result in a balanced budget. If taxpayers continued to mark the checkoff--presumably to pay off the public debt--sequestration could total \$700 billion in 2003. In that year, the cumulative sequestration could exceed 40 percent of non-exempt spending; the government could run a surplus of over \$200 billion; and only \$3.9 trillion of debt could remain (versus \$7.5 trillion under the current outlook). Of course, neither CBO nor other analysts can estimate how many taxpayers would actually elect the checkoff, particularly as spending cuts deepen and the budget moves into surplus.

Honorable Robert S. Walker
Page 3

Please call me if I can be of additional assistance, or your staff may wish to contact Kathy Ruffing (62880) for further information on this matter.

Sincerely,


for Robert D. Reischauer
Director

Attachments

cc: Honorable Dan Rostenkowski
Chairman, Committee on Ways and Means

Honorable Bill Archer
Ranking Minority Member, Committee on Ways and Means

Honorable John Conyers, Jr.
Chairman, Committee on Government Operations

Honorable William F. Clinger, Jr.
Ranking Minority Member, Committee on Government Operations

Honorable Robert S. Walker
 page 4

TABLE 1: CBO BASELINE PROJECTIONS (By fiscal year, in billions of dollars)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Revenues											
Individual income taxes	501	531	567	600	629	662	690	720	762	786	821
All other	642	684	723	756	785	820	849	880	903	947	983
Total	1,143	1,215	1,291	1,356	1,414	1,482	1,540	1,600	1,664	1,733	1,804
Outlays											
Social Security a/	302	319	335	351	368	385	403	420	439	459	480
Interest a/	198	211	231	250	270	292	314	339	368	400	437
Deposit insurance a/	3	10	11	-1	-14	-10	-9	-10	-10	-9	-9
Medicare	146	167	188	211	234	259	286	316	350	389	432
Medicaid	80	92	105	118	131	146	162	179	198	219	240
Other mandatory programs	241	238	237	234	251	261	269	277	286	296	305
Discretionary spending	547	539	539	554	569	584	600	616	633	650	668
Offsetting receipts b/	-65	-68	-72	-73	-76	-78	-81	-84	-87	-91	-94
Total	1,453	1,507	1,575	1,643	1,733	1,839	1,943	2,055	2,178	2,312	2,458
Deficit (-) or surplus (+)	-310	-291	-284	-287	-319	-357	-404	-455	-513	-579	-653
Debt held by the public	3,290	3,585	3,874	4,169	4,496	4,863	5,275	5,739	6,261	6,850	7,512
Memorandum: Total non-exempt outlays	1,015	1,035	1,070	1,116	1,185	1,250	1,317	1,389	1,468	1,553	1,645

SOURCE: Congressional Budget Office, January 1993 baseline projections (assuming compliance with the discretionary spending caps in the 1990 Budget Enforcement Act).

a. Program exempt from sequestration under Congressman Walker's proposal.

b. Offsetting receipts are effectively exempt because they are not associated with sequesterable budgetary resources.

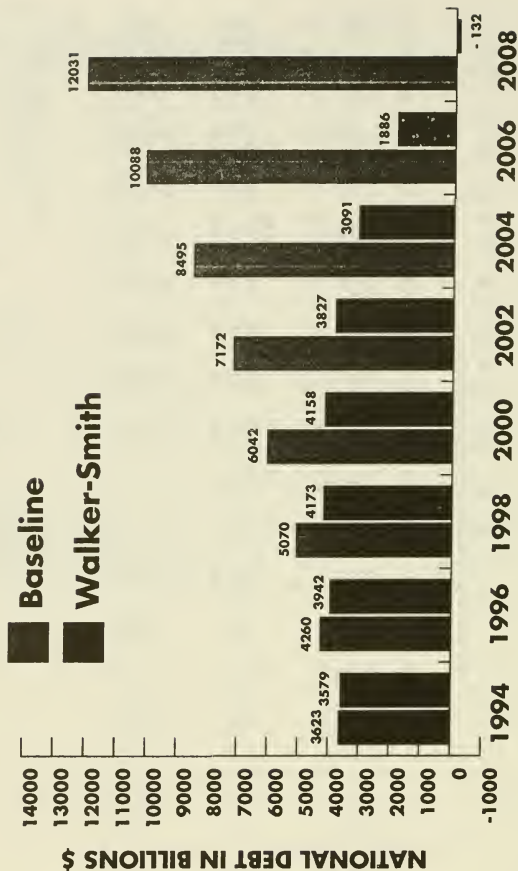
Waker Plan Sequestration Equal to 10% of Personal Income Tax
(fiscal years; in billions of dollars)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
as follows:															
Receipts.....	1230	1306	1378	1440	1523	1615	1716	1825	1935	2051	2167	2283	2406	2532	2661
Outlays.....	1539	1613	1703	1824	1950	2082	2221	2367	2522	2684	2857	3042	3240	3454	3683
Deficit.....	309	307	324	384	426	467	505	542	587	633	690	759	834	922	1021
Debt held by the Public.....	3623	3932	4260	4644	5070	5538	6042	6585	7172	7805	8495	9254	10088	11010	12031
difference:															
Receipts.....	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Outlays.....	-45	-103	-171	-249	-356	-465	-574	-697	-833	-985	-1154	-1341	-1548	-1776	-2027
Deficit.....	-45	-103	-171	-249	-356	-465	-574	-697	-833	-985	-1154	-1341	-1548	-1776	-2027
Debt held by the Public.....	-45	-147	-319	-568	-924	-1389	-1963	-2659	-3493	-4478	-5633	-6974	-8522	-10298	-12325
Waker Plan:															
Receipts.....	1230	1306	1378	1440	1523	1615	1716	1825	1935	2051	2167	2283	2406	2532	2661
Outlays.....	1495	1510	1532	1574	1594	1617	1647	1671	1689	1699	1703	1701	1692	1678	1656
Deficit.....	265	204	153	135	71	2	-70	-154	-246	-352	-484	-583	-714	-854	-1006
Debt held by the Public.....	3578	3785	3941	4076	4147	4149	4080	3925	3679	3327	2863	2280	1568	712	-294

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Office of Management
and Budget

Reducing the Red Ink



Source: Office of Management and Budget

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September 28, 1992

THE TEN PERCENT TAXPAYER CHECKOFF: BREAKING SPECIAL INTEREST BUDGET GRIDLOCK

Daniel J. Mitchell
John M. Olin Fellow

INTRODUCTION

In this election year, voters understandably are voicing their frustration at the inability of Washington politicians to put America's economic house in order. The 1990 budget deal was supposed to balance the federal budget. But legislation implementing the deal gutted the enforcement mechanisms of the 1985 Gramm-Rudman-Hollings Deficit Reduction Act, and the deficit widened in the past two years. Instead of the promised era of fiscal restraint, record tax and spending increases are consuming larger and larger amounts of national income.

While it is difficult to be optimistic about Congress imposing real controls on spending and the deficit, one idea could well force Congress to do so. Representative Robert Walker, the Pennsylvania Republican, has introduced legislation in the House that will put into the hands of each taxpayer power to determine directly how fast the federal budget grows. Walker's plan (H.R. 5773) is co-sponsored in the Senate by Robert Smith, the New Hampshire Republican (S. 3158), and was given an important boost in August when George Bush endorsed it in his convention acceptance speech.

Taxpayer Antidote. The Walker-Smith proposal allows taxpayers, through a checkoff on their tax form, to dedicate up to 10 percent of their personal income tax liability to a fund to retire the national debt. Further, it prohibits politicians from simply replacing the old debt with new borrowing by mandating that federal spending be reduced by the same amount as the total taxpayer checkoff. If approved, the plan could balance the budget in as little as four years.

An attractive feature of the Walker-Smith plan is that it gives taxpayers the power to act as an antidote to the disproportionate influence now exercised over the budget by interest groups. Beneficiaries of federal largesse closely monitor budget developments, lobby policy makers, and devote considerable resources to maintain or increase their slice of an ever-growing budget pie. Ordinary taxpayers, on the other hand, usually lack the time, detailed knowledge, and resources to

Note: Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

counter the organized efforts of special interest groups. And while many members of Congress portray themselves as fiscal conservatives when campaigning in their home states and districts, in Washington they often yield to the pressure of interest groups demanding higher spending.

By giving each taxpayer the direct power to limit the growth of federal spending, the Walker-Smith checkoff plan would allow families to challenge and defeat the spending coalitions without having to organize themselves into a political constituency. As such, the plan profoundly would change the dynamics of spending, and could at last force fiscal discipline on Washington.

HOW THE TAXPAYER CHECKOFF WOULD WORK

The taxpayer checkoff is a technically simple method of allowing individual taxpayers to make modest changes in the total level of federal spending. Under the plan, all taxpayers will have the option, when filing their annual tax returns, of dedicating up to 10 percent of their personal income tax liability to a debt retirement trust fund. Lawmakers then will have to reduce federal spending by the total amount dedicated to the fund.¹ Should lawmakers fail to reduce total spending as required, budget cuts would occur automatically in a process known as sequestration.

To understand exactly how this would work, consider an example. Let us say that after all the tax return checkoffs were tallied when Americans filed their 1992 returns next April, taxpayers had dedicated \$40 billion of their personal income tax liability to the trust fund. Total federal spending for the 1994 fiscal year, beginning in October 1993, would have to be reduced by the same amount—\$40 billion—below projected 1994 baseline spending levels. This process would repeat every year. If, in early 1994, taxpayers dedicated \$45 billion of their 1993 tax liability to the trust fund, fiscal 1995 federal spending would have to be reduced by that amount.²

Slowing Spending Growth. The taxpayer checkoff could have a significant impact on the deficit. The actual level of savings would depend on the level of taxpayer participation, which in turn would reflect the importance placed by individual taxpayers on deficit control. It is also difficult to estimate precisely how fast government spending would grow if the taxpayer checkoff were enacted since the cuts would be made from whatever spending level lawmakers approved for that year. The growth of spending, however, certainly would be slowed. For instance, assume the current services baseline projected that spending would have to grow

1 The spending "cut" mandated by the Walker-Smith plan is a reduction from the upcoming fiscal year's current services baseline. Since the current services baseline projects higher spending, due to inflation, demographic shifts, and program expansions, the actual effect of the checkoff would be to reduce the size of the budget's increase.

2 Tax returns for any particular calendar year are due by April 15 of the following year. It would be shortly after this date that the government would tabulate the total amount dedicated to the trust fund. This amount then would be sequestered from the upcoming fiscal year's budget, which would begin October 1.

by \$65 billion. If, then, taxpayers selected \$40 billion on their tax returns, lawmakers would be allowed to spend only \$25 billion above the previous year's level. Failure to comply would trigger a sequester, which would bring spending down to the legally required level.

Nor would politicians be able to evade this fiscal discipline by simply increasing spending by an extra \$40 billion above the baseline. The current rules governing the budget, while considerably weakened in 1990, still impose some limit on the overall level of spending. Discretionary spending growth is limited by a spending cap.³ Entitlement spending, meanwhile, is subject to pay-as-you-go rules originally implemented by Gramm-Rudman back in 1985. These rules prohibit the creation of new entitlement programs, or expansion of existing ones, unless that spending is paid for by higher taxes or cuts in other entitlements. The discretionary and entitlement budget rules do allow spending to grow by more than twice the rate of inflation, but they place an upper limit on how much Congress can spend in any given fiscal year.⁴

THE POTENTIAL SAVINGS

The following table, prepared by the Congressional Budget Office (CBO), illustrates the maximum potential savings the checkoff plan could achieve when compared with current projections of how federal spending will grow. If all taxpayers were to choose the maximum checkoff, today's record deficits would fall quickly and a budget surplus of \$26 billion would occur as early as 1997, according to the CBO. And even if currently projected spending levels grow because of the "economic" and "technical" re-estimates allowed under the 1990 Budget Enforcement Act, worst-case scenarios indicate that these re-estimates would delay a balanced budget only by one year.

One reason why the savings become so large in future years is that the sequester is designed to reduce permanently the federal spending baseline. This is a crucial feature of the legislation because the federal budget is prepared each year using baseline projections as the benchmark or starting point. If, for instance, the baseline projects that spending should rise by \$75 billion because of inflation, demographic shifts, and program expansions already built into the law, reducing that \$75 billion increase to a \$50 billion increase is counted as a \$25 billion budget "cut." This process, known as current services budgeting, biases budgetary choices by allowing interest groups to portray even modest program reforms as deep cuts, since both the general public and the media tend to assume that govern-

3 While discretionary spending has been subject to three separate caps, one each for domestic, defense, and international, these firewalls disappear beginning in fiscal 1994 when a single unified cap for all discretionary spending takes effect.

4 The budget rules do allow for emergency spending which is exempt from the budget caps. It is this loophole, for instance, which will allow politicians to approve hurricane relief spending. While this provision theoretically could be used to remove any and all fiscal discipline imposed by a taxpayer checkoff, it is more likely that politicians would just repeal the law if they ever reached that stage.

ment budget numbers refer to nominal year-to-year changes. The taxpayer check-off will not repeal current services budgeting, but the multi-year impact of sequesters on the spending baseline will reduce the problem.

Taxpayer Checkoff Deficit Savings (in \$ billions)						
	1994	1995	1996	1997	1998	1999
Current Spending Estimates*	1,529	1,543	1,602	1,726	1,843	1,962
Current Deficit Estimates	267	203	189	236	265	296
Maximum Checkoff Savings	49	107	178	263	360	474
Resulting Outlay Levels	1,479	1,435	1,424	1,464	1,482	1,487
Resulting Deficit Levels	218	96	11	(26)	(96)	(178)
*These baseline spending estimates incorporate spending caps and pay-as-you-go rules. Source: Congressional Budget Office						

Another reason why the taxpayer checkoff saves so much money over time is that the federal government will not need to pay interest on borrowed money. Every dollar saved by the checkoff means one less dollar that the federal government borrows from private credit markets. Not only does this mean more funds for consumers seeking car loans and mortgages, and more money for businesses attempting to build new factories and create jobs, it also means that taxpayers will be paying less interest since the national debt will have grown at a slower rate.

WHY THE TAXPAYER CHECKOFF IS NECESSARY

The fiscal picture has deteriorated at an alarming pace in recent years. Moreover, there is little reason to believe that the situation will improve without a major change in the budget process. Allowing taxpayers to "vote" on federal spending would be such a change because it would empower taxpayers at the expense of the special interest groups that currently wield so much power in Washington. Decisive action of this kind is necessary. Consider:

- ✕ Federal spending is projected at \$1.407 trillion for fiscal 1992, some \$262.9 billion higher than it was when George Bush took office. By next year, it is projected to be \$1.504 trillion, or \$359.7 billion higher.

- X Federal spending now consumes 24.0 percent of Gross Domestic Product (GDP), up from 22.1 percent in 1989. Next year, federal spending is projected to consume 24.3 percent of GDP.
- X Over the eight years of his presidency, Ronald Reagan reduced domestic spending from 14.83 percent of GDP to 12.24 percent of GDP. In just three years, George Bush and Congress have permitted domestic spending to climb to 14.92 percent of GDP, wiping out all the gains achieved during the Reagan years.
- X In inflation-adjusted 1987 dollars, domestic spending has increased by a total of \$134.1 billion from fiscal 1989 to fiscal 1992, an average annual increase of \$44.7 billion during the Bush Administration. This compares with a total increase between fiscal 1981 and fiscal 1989 of \$22.54 billion, averaging \$2.82 billion annually, under Reagan and a total increase between fiscal 1977 and fiscal 1981 of \$61.24 billion, or \$15.31 billion annually, during the Carter Administration.
- X Inflation-adjusted domestic spending has climbed by an average of 7.14 percent annually under Bush, or more than thirteen times faster than the 0.53 percent average annual growth under Reagan and nearly two and one-half times faster than the 2.95 percent average annual domestic spending growth under Carter.
- X The budget deficit, which was \$153.5 billion in fiscal 1989, when Bush became President, is expected to reach \$333.5 billion this fiscal year and an all-time record of \$341.0 billion next fiscal year. This \$187.5 billion jump represents an increase of 122 percent in just four years.
- X The 1990 budget agreement included provisions which eliminated the fixed annual deficit targets that were the key feature of the 1985 Gramm-Rudman-Hollings Deficit Reduction Act. These fixed deficit targets effectively capped the growth of federal spending since automatic budget cuts, known as sequestration, would be triggered if lawmakers attempted to increase spending by more than the sum of projected revenues plus the allowable deficit for each year. The Budget Enforcement Act (BEA), which replaced Gramm-Rudman after the 1990 budget agreement, does not cap the total growth of federal spending.
- X Supporters claimed that the BEA was an improvement over Gramm-Rudman, but inflation-adjusted domestic spending has grown at an 8.38 percent annual average rate under the new budget law, or more than seven and one-half times faster than the growth rate under Gramm-Rudman. Inflation-adjusted domestic discretionary spending under the BEA is climbing at a 5.4 percent annual clip, or more than five times the 1.01 percent average annual growth rate under Gramm-Rudman.

- ✕ With Gramm-Rudman's cap on overall spending gone, Congress and the Administration have allowed entitlement spending to grow unchecked. Under the BEA, inflation-adjusted entitlement spending is growing at an annual average rate of 9.43 percent, or more than eight times faster than the 1.13 percent annual growth rate under Gramm-Rudman.

As these figures demonstrate, America's federal spending crisis is real and must be addressed urgently. The taxpayer checkoff is not the only way to achieve meaningful deficit reduction, but it may be the only realistic way to break the special interest control of the budget process. Failure to act will burden future generations with even higher levels of debt.

CRITICISMS OF THE CHECKOFF PLAN

Interest groups already have mobilized against the taxpayer checkoff. They recognize that the plan's sequester provision would put an end to the record spending increases of recent years. In order to fight the taxpayer checkoff, opponents have marshalled several arguments. These are either wrong or misleading.

Among the objections:

Claim #1: The taxpayer checkoff is a budget gimmick that will not work.

The Congressional Budget Office (CBO) rarely acknowledges the effectiveness of fiscal policies that reduce or restrain government spending and taxes. Yet even the CBO has stated that the taxpayer checkoff would work. Indeed, the savings estimates outlined above come directly from CBO estimates.

The sequestration provision is the key to the legislation's workability. Should Congress fail to act voluntarily to reduce spending by the amount of the checkoff, spending cuts would occur automatically, reducing by equal percentages all programs other than Social Security, deposit insurance, and net interest. And Congress could not avoid the automatic cuts by raising taxes; the only way to cancel the sequester is through a package of spending cuts of equal magnitude. This insures that the deficit will be reduced in a way that does not undermine economic growth.

Claim #2: The taxpayer checkoff will cause draconian budget cuts.

In direct contradiction to the charge that the proposal is an ineffective gimmick, opponents also argue that the cuts forced by the taxpayer checkoff would be too severe. Under the Walker-Smith legislation, full participation in the checkoff would limit fiscal 1997 federal spending to \$1.464 trillion. While still 4.5 percent greater than the \$1.407 trillion projected for the 1993 fiscal year, a \$1.464 trillion budget is more than 13 percent below the baseline fiscal 1997 projection made by the CBO in February 1992.

By Washington standards, these "cuts" might seem harsh, but by real world measurements they represent modest and long overdue steps to control federal spending. Moreover, if the Walker-Smith legislation were enacted, not all taxpayers would choose to check off, and many of those that did would not choose the

full 10 percent. So, the actual amount of spending discipline mandated by the Walker-Smith legislation would be less than critics claim.

Claim #3: Excessive spending cuts will hinder economic recovery.

Another line of attack comes from Keynesian economists who argue that increased federal spending is needed to lift the economy out of the doldrums. According to the Keynesians, legislation which mandates less spending will weaken the economy by reducing aggregate demand.

But years of experience demonstrates the hollow ring of the Keynesian argument. Record spending increases and record deficits in the last few years have been associated with slow economic growth, not a boom. Keynesian policies produced the stagflation of the 1970s—theoretically impossible in the Keynesian model. Keynesians also predicted that the Reagan tax cuts would lead to more inflation. In fact, inflation dropped from 13 percent to 4 percent following the Reagan tax cuts, and the tax cuts triggered the longest peacetime economic expansion in America's history.

Claim #4: The taxpayer checkoff will undermine Congress's ability to allocate funds.

Opponents assert that an across-the-board sequester treats all programs as if they had equal value, subjecting monies for AIDS research to the same percentage cut as subsidies for honey production and spending for pork-barrel mass transit projects. A "meat-ax" approach to the budget, critics say, denies lawmakers the power to channel federal funds to where they are needed most.

Not true. Politicians concerned about the wise use of federal money can comply with the law by enacting their own package of spending cuts. And even if Congress fails to produce an alternative package, sequestration does not eliminate congressional discretion. When preparing a budget for an upcoming fiscal year, lawmakers will be free to increase or decrease funding for any program as long as they keep spending levels within already existing budget constraints such as the overall cap on discretionary spending and the pay-as-you-go rules for expanding entitlement programs. Lawmakers simply would have to choose priorities, to spend less on one program to spend more on another.

Nothing in the Walker-Smith legislation would prevent Congress from appropriating more money to politically popular programs. Indeed, even if taxpayers checked off enough money to force a 5 percent reduction, Congress could guarantee the level of funding for any particular program by appropriating 5 percent more than they really wanted to spend. They would just have to find the money from other programs.

Rather than putting the budget on autopilot, the Walker-Smith legislation thus would force lawmakers to set priorities by shrinking the overall federal spending pie and making interest groups compete for fewer federal dollars. This discipline would put an end to the current practice of giving all programs big increases, regardless of how poorly the money is being spent.

Claim #5: The taxpayer checkoff is a one-way street, allowing taxpayers to cut projected spending levels but not permitting taxpayers to choose to increase spending.

If there was any evidence that federal spending was too low, this criticism might have some merit. But spending is growing so rapidly that the budget deficit now exceeds \$300 billion. The economy is suffering because government spends too much, not too little. Even so, the legislation could be modified to give taxpayers the option of increasing spending.

As the law currently stands, there is nothing that prevents taxpayers from making contributions to the federal government. Indeed, tax forms already include a procedure encouraging individuals to pay additional taxes to help reduce the national debt. In fact, the taxpayer checkoff could be amended to allow taxpayers to increase their tax liability and dedicate the extra money to whatever program they preferred.

There would be several advantages to this modification. First, allowing taxpayers to choose higher spending would give voters who want higher spending on specific programs the chance to achieve this goal. Second, the fact that almost no taxpayers would voluntarily choose to pay more taxes for higher spending would dispel the myth, disseminated by the media and some politicians, that the American people want taxes to increase to fund more domestic spending.

Claim #6: The taxpayer checkoff gives those with high tax liabilities greater influence over the budget than those with low tax liabilities.

It is true that those who finance a higher percentage of the federal budget would be able to trigger more budget cuts than those who pay fewer taxes. But rather than a shortcoming of the legislation, this is a powerful argument on behalf of the taxpayer checkoff. For too long, the federal budget has been used as a mechanism to redistribute income. Some of this redistribution is designed to transfer income from rich to poor, a policy which reduces incentives to work, save, and invest for all parties involved. A surprisingly large portion of the redistribution, however, is from taxpayers in general to well-organized interest groups, many of which already have high incomes.

The taxpayer checkoff begins to redress this problem. While it does not directly reduce the tax liability of any taxpayer, it does give taxpayers some authority over how their income is spent.

CONCLUSION

Just as interest groups condemned the Gramm-Rudman Act for reducing the growth of federal spending, the intensity of the criticism levelled at the Walker-Smith legislation is a sign that the legislation would be effective. The real question is not whether it will work, it is whether Congress voluntarily would enact legislation that so clearly would curtail lawmakers' ability to funnel resources to favored constituencies. As important, a checkoff system would place in the hand of frustrated taxpayers the power to deal directly with the plague of excessive government spending.

This is why the President's endorsement of the checkoff in his acceptance speech at the Republican convention is so important. It raises the stakes, forcing public consideration of a plan that really would bring deficit spending under control.

All Heritage Foundation papers are now available electronically to subscribers of the "NEXIS" on-line data retrieval service. The Heritage Foundation's Reports (HFRPTS) can be found in the OMNI, CURRNT, NWLTRS, and GVT group files of the NEXIS library and in the GOVT and OMNI group files of the GOVNWS library.

Citizen empowerment

Pgh.
Tribune
-Review
9/14/93

U.S. Rep. Robert Walker thinks he knows how to reduce annual budget deficits, and eventually eliminate the nation's staggering \$4.3 trillion debt: Let the taxpayers do it.

We think he has something there.

Under his proposal, citizens could voluntarily designate a portion of their taxes — up to 10 percent — to be used solely to cut annual deficits. And for every dollar earmarked for the special fund, Congress would have to cut an equal amount from government spending.

If Congress failed to act, most of the cuts would be triggered automatically. Moreover, they would be permanent.

How effective could all this be? Well, the Congressional Budget Office calculates that if every taxpayer participated, the potential exists to wipe out the deficit by the year 2000, and the national debt by 2009.

Granted, CBO is being highly optimistic. And Walker, a Pennsylvania Republican, admits no one knows how many taxpayers would get involved, or what percentage of their tax dollars would be committed.

Still, he sees his plan — to be aired next month at a hearing of the House Ways and Means Committee — as one way of dealing simultaneously with the massive debt and annual budget shortfall. The plan would be improved if teamed with a line-item veto or a balanced budget amendment, added Walker.

Naturally, it has its critics. When a similar proposal was defeated last year in the upper chamber, Sen. Robert Byrd, D-W.Va., called it a "poison pill," and said it could lead to spending cuts so massive government would be crippled. Others fear it could damage the economy and threaten growth.

"No one would have control over how much is actually done," says Paul Leonard, an analyst at the Center on Budget and Policy Priorities, a nonpartisan research group.

Such arguments, however, are not persuasive. Indeed, they seem more attuned to defending and maintaining the status quo of a Congress unresponsive to the electorate than to any sense of fiscal sobriety.

Walker sees his proposal as a way to get more citizens involved in the nation's budgetary process. It's that, all right.

It is also a realistic way of dealing — at least in part — with the nation's financial ills. And its passage or defeat could be a clear indicator of just how serious Congress is about deficit and debt reduction.

computer on everybody's desk. Now-a-days the biggest question facing computer users isn't whether the data-processing department will accept their job order but whether to wait six months to buy an even better machine at an even lower price.

Despite its best efforts to keep up, and at times they were very good, the old IBM couldn't adapt to a decentralized, often chaotic market in which desktop machines took on the power of mainframes and brand loyalty was nearly nonexistent. "Everything I learned at IBM is worthless," a laid-off engineer told the *Los Angeles Times*. It remains to be seen whether IBM can reinvent itself or whether, like the Sears catalog, it belongs to the ages.

The anxiety peddlers never ask, Would you give up your laptop to preserve 150,000 jobs at IBM? Do you wish the Mac had never been invented? If you could, would you wipe out desktop publishing, saving not only all those IBMers but also untold numbers of typesetters and paste-up artists?

The personal-computer revolution, like the industrial revolution, is not a natural disaster, though it may feel like one to those whose jobs it flooded out. It is, like the transportation revolution that made possible oranges in Chicago, a technological response to the desires of millions for a better life.

Those desires do not please our social critics. In an age of mass production, they railed about the alienation of the worker. Now they complain about the service economy and the shortage of high-paid, workingmen's jobs even as they denounce frivolous consumption and planet-threatening growth. They long for dark, satanic mills.

It is easy to be nostalgic for the world we have lost, easier still when voters can be bought with nostalgia for the jobs they once held. But the age of discontinuity, too, recalls earlier ages. It asks a familiar-sounding question: Are we better off than we were 100 years ago? Who was right—the farmer or the fair?

ers decide how strict the diet would be.

The Walker plan would let taxpayers use their income-tax forms to set aside as much as 10 percent of their tax payments to retire federal debt. Every dollar checked off would buy down a government bond or other form of debt.

Unlike Clinton's deficit-reduction trust fund, the Walker plan is no gimmick: Every dollar designated for debt retirement would also permanently cut federal spending by a dollar. Politicians wouldn't be able to dodge these cuts. If Congress didn't slash programs, then an across-the-board sequester would automatically make the cuts. (The plan exempts Social Security, deposit insurance, and interest payments.)

We're talking real money. Say the plan passes this year. The Congressional Budget Office projects that if every taxpayer checked off the maximum, in fiscal year 2003 the program would have retired more than \$700 billion in debt and federal spending that year would be \$70 billion less than it was in the first year of the plan. (Spending in the sequesterable programs would drop from a scheduled \$1.645 trillion to \$945 billion.) The federal debt could be paid off within 15 years.

Even if no one checked off a dollar for debt reduction, the plan would freeze spending at its current budgeted level. The anticipated growth in tax revenue could balance the budget within six or seven years.

Of course, Congress could introduce new spending programs and pay for them with new excise, consumption, or payroll taxes. But people might be less likely to endorse additional government programs if they weren't "free."

And the Walker plan would force Congress to explain, for instance, why taxpayers should pay farmers not to grow crops, give every 65-year-old virtually free medical care, and guarantee any high school graduate both a free college education and a government job after graduation.

Desperate times often require extreme measures. Since Ronald Reagan promised to balance the budget and pay off the debt in 1980, federal debt has grown by nearly \$3 trillion. At a Cato Institute forum in September, Walker admitted his fiscal revolution would result in fierce debates. Just remember, dieters: no pain, no gain.

FEDERAL DIET PLAN

RICK HENDERSON

Bill Clinton and Al Gore have some decent ideas about reinventing government—streamline purchasing regulations, make it easier to reward competent employees and fire slackards, consolidate redundant agencies. But the vice president's National Performance Review is, in truth, a pretty wimpy effort.

Gore says reinventing government can save \$108 billion over five years. That's a mere 1.2 percent of total federal spending. And, unlike the Grace Commission and other watchdogs that have tried to root out "waste, fraud, and abuse," Clinton and Gore have no intention of returning these savings to taxpayers. Health care, national service, and other new spending programs will expand the bureaucracy as it becomes more "efficient."

The review's purpose—and its Achilles' heel—was identified by David Osborne (a performance review consultant) and Ted

Gaebler in their 1992 manifesto: "*Reinventing Government* addresses how governments work, not *what* they do."

Reform-minded Americans, however, want elected officials to streamline the civil service and eliminate costly programs. An exit poll last November revealed that more than half of Clinton's support came from people who wanted lower taxes and smaller government. The president's desire to endlessly expand federal programs also contrasts sharply with the priorities of the much-ballyhooed "Perot voters" and other grass-roots reformers.

Fortunately, there's a proposal that would force the White House and Congress to put the federal government on a diet. Rep. Robert Walker (R-Pa.) has introduced the Taxpayer Debt Buy-Down Act of 1993. Walker's bill would reinvent government by shrinking it—and let individual taxpay-

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BUREAU

Tax checkoff would put the people in control

By WAYNE WINEGARDEN *UGO*

If re-elected, George Bush proposes to offer you a new way to help control excessive government spending: a 10 percent income tax checkoff provision. Bush's proposal, while not a panacea for the country's economic ills, could force fiscal responsibility in Washington.

Winegarden is a policy analyst for Citizens for a Sound Economy, a Washington-based 250,000-member non-partisan, non-profit citizen advocacy group that promotes market-oriented solutions to public policy problems.

The proposal, introduced by Rep. Robert Walker, R-Pa. and Sen. Bob Smith, R-N.H., allows

taxpayers to earmark up to 10 percent of income tax revenue to "reduce the national debt." Taxpayers can express the desired percentage of their taxes the federal government should reserve for debt reduction by checking the appropriate box on the federal tax form.

Federal tax returns currently offer taxpayers the option to directly reduce the national debt. But the current debt-reduction checkoff requires already overtaxed Americans to voluntarily expend more money in addition to their tax liability.

The checkoff proposal may sound like another political gimmick. But the Bush and Walker proposals couple the checkoff with automatic spending cuts. This ensures spending will decrease dollar for dollar with desired debt reduction. Congress must cut all eligible programs by the dollar amount taxpayers choose. And only Social Security retirement benefits, interest on the debt and deposit insurance escape the mandatory cuts.

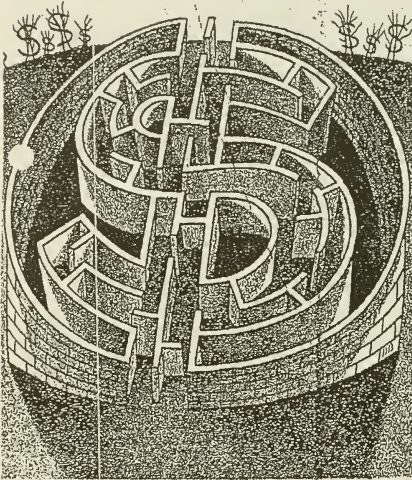
Armed with a tool capable of causing a 10 percent across-the-board spending cut, voters can regain control over Congress' spending habit, the root cause of the federal debt. Congress spends \$1.89 for every dollar it raises in new taxes. Hence, the 81 percent increase in federal tax revenues since 1982 has not prevented the extraordinary growth in the spending-driven federal debt.

However, the recent failure of the Walker proposal in the Senate demonstrates that the same political process that created the debt also denies taxpayers the power to reduce the debt. Many politicians oppose attempts to limit their control over federal spending because government spending provides them with a powerful re-election tool. Nevertheless, voter-imposed disciplines offers the best solution to the government's spending problem.

Congress' accounting agency, the Congressional Budget Office, estimated the effects of a 10 percent checkoff proposal if every taxpayer designated 10 percent of his taxes toward debt reduction. Under these ideal circumstances, the checkoff would eliminate the deficit within five years. The deficit is currently projected to total \$290 billion for fiscal year 1992.

The national debt, the accumulation of all past deficits, stands at more than \$4 trillion. If the current spending pattern continues until 2002, the debt will increase to more than \$6 trillion. On the other hand, the CBO estimated that a 10 percent checkoff could, over the same time period, reduce the national debt to \$2.3 trillion, saving almost \$4 trillion over our current spending path.

Without sensible action, the government's spending problem will continue to create historic debt levels. The Bush and Walker proposal presents a sensible solution to this problem. But the failure of the checkoff proposal in the Senate demonstrates the inability of the political establishment to impose a solution on itself. This intensifies the need to include the American people in the solution process via a 10 percent checkoff.



TESTIMONY BY
CONGRESSMAN ROBERT S. WALKER
BEFORE THE
HOUSE SUBCOMMITTEE ON LEGISLATION AND NATIONAL SECURITY
OF THE
HOUSE COMMITTEE ON GOVERNMENT OPERATIONS
ON
H.R. 429, THE TAXPAYER DEBT BUY-DOWN ACT
AUGUST 4, 1994

MR. CHAIRMAN, MR. MCCANDLESS, MEMBERS OF THE COMMITTEE: THANK YOU FOR THE OPPORTUNITY TO TESTIFY ON WHAT I BELIEVE IS AN EFFECTIVE, INNOVATIVE PLAN TO CUT THE RUNAWAY FEDERAL BUDGET DEFICIT AND REDUCE THE \$3.5 TRILLION NATIONAL DEBT.

AS I WILL DISCUSS IN MY TESTIMONY, H.R. 429, THE TAXPAYER DEBT BUY-DOWN ACT, IS MORE THAN A DEFICIT REDUCTION PLAN. IT IS A REVOLUTIONARY ATTEMPT TO BRING THE AMERICAN TAXPAYER DIRECTLY INTO THE BUDGET PROCESS; A PLAN THAT WILL GIVE TAXPAYERS THE POWER THEY NEED TO PARTICIPATE IN CONTROLLING FEDERAL SPENDING. IN FACT, IF PASSED, THIS LEGISLATION WOULD BE A REFERENDUM EVERY APRIL 15 ON FEDERAL EXPENDITURES.

THERE IS MUCH CONFUSION ABOUT HOW THIS RELATIVELY MODEST IDEA WORKS. ALLOW ME TO BRIEFLY SUMMARIZE IT. WHEN PASSED, THE BILL WOULD GIVE TAXPAYERS THE OPTION OF VOLUNTARILY DESIGNATING UP TO 10% OF THEIR INCOME TAX LIABILITY--NOT THEIR REFUND, BUT THEIR LIABILITY--TO A PUBLIC DEBT REDUCTION FUND MANAGED BY THE DEPARTMENT OF THE TREASURY. THIS FUND WOULD BE EARMARKED STRICTLY FOR BUYING BACK THE NATIONAL DEBT.

ON MAY 1ST OF EACH YEAR, THE TREASURY DEPARTMENT WOULD BE REQUIRED TO PROVIDE CONGRESS WITH AN ESTIMATE OF THE TOTAL AMOUNT DESIGNATED BY THE TAXPAYERS FOR DEBT REDUCTION. CONGRESS WOULD HAVE, FROM THE TIME OF THE REPORT IN MAY, UNTIL THE END OF SEPTEMBER TO FIND SPENDING CUTS IN ANY AND ALL BUDGETARY ACCOUNTS. IF CONGRESS FAILED TO ENACT SPENDING CUTS EQUALING THE AMOUNT DESIGNATED BY THE TAXPAYERS, AN ACROSS-THE-BOARD SEQUESTER OF ALL ACCOUNTS EXCEPT SOCIAL SECURITY, INTEREST ON THE DEBT AND DEPOSIT INSURANCE, WOULD BE IMPOSED. THIS SEQUESTER WOULD PERMANENTLY REDUCE THE BUDGET BASELINE AS WOULD ANY SPENDING CUTS ENACTED BY CONGRESS.

A LOT OF CONTROVERSY AND MISINFORMATION HAS ARISEN ABOUT THIS LAST POINT. DIRE PREDICTIONS HAVE BEEN MADE ABOUT THE COLLAPSE OF GOVERNMENT UNDER THE SEVERITY OF THESE CUTS. THOSE PREDICTIONS ARE NONSENSE! I WOULD LIKE TO POINT OUT THAT, EVEN WITH MAXIMUM TAXPAYER PARTICIPATION, OUTLAYS WOULD CONTINUE TO INCREASE ACCORDING TO THE OMB ESTIMATES. GOVERNMENT SPENDING WOULD GROW BY ALMOST 10% DURING THE TIME WE ARE COLLAPSING THE DEBT TO ZERO IN 15 YEARS. HOW CAN SOMEONE PREDICT THE COLLAPSE OF THE GOVERNMENT ON FUNDING LEVELS WHICH ARE HIGHER THAN THOSE WE HAVE TODAY? SPENDING PRIORITIES WOULD HAVE TO BE REALLOCATED

AND GOVERNMENT NON-ESSENTIALS WOULD HAVE TO BE ELIMINATED, BUT THERE WOULD BE PLENTY OF MONEY TO DO THE NECESSARY WORK OF NATIONAL GOVERNMENT.

ANOTHER, ADDED BENEFIT OF DIRECT TAXPAYER INVOLVEMENT IS THAT NECESSARY SPENDING CUTS WOULD BE REQUIRED BY THE AMERICAN PEOPLE AND WOULD BYPASS SPECIAL INTEREST PLEADING. THEREFORE, THE BURDEN OF TRYING TO "SELL" VARIOUS CUTS WOULD BE REMOVED FROM CONGRESS, FOR CONGRESS WOULD ONLY BE DOING WHAT THE AMERICAN PEOPLE SPECIFICALLY ASKED IT TO DO. THIS WOULD BE OF IMMEASURABLE BENEFIT IN THE LEGISLATIVE PROCESS. A CONSTITUENCY OF MILLIONS OF VOTERS WHO WANT SPENDING CUTS WOULD BE FORMULATED EACH APRIL.

I AM THANKFUL TO THE GROWING NUMBER OF ORGANIZATIONS AND INDIVIDUALS WHO HAVE ENDORSED H.R. 429. LAWRENCE KUDLOW, ECONOMIC EDITOR FOR NATIONAL REVIEW, NORM TURE, PRESIDENT OF THE INSTITUTE FOR THE RESEARCH ON THE ECONOMICS OF TAXATION, CITIZENS AGAINST GOVERNMENT WASTE, THE NATIONAL TAXPAYERS UNION, AND CITIZENS FOR A SOUND ECONOMY, ARE ALL SUPPORTING THIS LEGISLATION.

ONE HUNDRED AND TWO MEMBERS OF THE HOUSE HAVE ALREADY COSPONSORED THIS BILL, AND SENATOR BOB SMITH HAS INTRODUCED A COMPANION BILL, S.449, WHICH HE IS VIGOROUSLY PURSUING IN THE UNITED STATES SENATE.

MR. CHAIRMAN; MEMBERS OF CONGRESS, NUMEROUS BUDGET EXPERTS, AND AN ARRAY OF TAXPAYER ADVOCACY ORGANIZATIONS SUPPORT THE TAXPAYER DEBT BUY-DOWN ACT FOR ONE REASON: THEY RECOGNIZE THAT A BALLOONING NATIONAL DEBT IS MORTGAGING OUR NATION'S FUTURE AND THE LIVELIHOODS OF OUR CHILDREN AND GRANDCHILDREN.

THE HOUSE AND SENATE HAVE PASSED PRESIDENT CLINTON'S BUDGET FOR THE LAST TWO YEARS. BUT MEMBERS SHOULD KEEP IN MIND THAT EVEN AFTER IMPOSING THE LARGEST TAX INCREASE IN HISTORY AS PART OF THE FISCAL YEAR 1994 BUDGET AND CUTTING DEFENSE SPENDING MASSIVELY, THE NATIONAL DEBT WILL STILL INCREASE BY MORE THAN A TRILLION DOLLARS OVER THE NEXT FIVE YEARS.

MR. CHAIRMAN, THE GROWING PROBLEM OF NATIONAL DEBT IS THE MOST POWERFUL ARGUMENT FOR TAKING THE CORRECTIVE STEP EMBODIED IN H.R. 429. BUT YOU NEED ASSURANCE THAT THIS PLAN CAN DO THE JOB. THEREFORE, I ASKED BOTH THE OFFICE OF MANAGEMENT AND BUDGET AND THE CONGRESSIONAL BUDGET OFFICE TO ESTIMATE THE IMPACT OF THE DEBT BUY-DOWN PLAN ON THE NATIONAL DEBT. OMB RAN THE NUMBERS OUT TO FISCAL YEAR 2009; CBO TO 2003. THE RESULTS ARE QUITE CLOSE AND THEREFORE CAN BE REGARDED AS PARALLEL.

CBO'S TREND LINE AGREES WITH THE OMB PROJECTIONS WHICH SHOW THAT IF THE DEBT BUY-DOWN WORKED OPTIMALLY, THE BUDGET WOULD BE BALANCED BY FISCAL YEAR 1998. THE DEBT WOULD BE ZEROED OUT BY FISCAL YEAR 2009. COMPARE THAT WITH THE PROBLEM WE FACE UNDER CURRENT CIRCUMSTANCES. ON OUR CURRENT PATH, THE DEBT WILL BE

OVER THIRTEEN TRILLION DOLLARS BY FY 2009! INTEREST ALONE WILL BE IN THE BILLIONS OF DOLLARS EACH YEAR AND THE OPTIONS FOR MEETING REAL NATIONAL NEEDS WILL BE SEVERELY LIMITED.

PRESIDENT CLINTON INCHED TOWARD THE CONCEPT OF DEBT BUY-DOWN WITH HIS DEFICIT TRUST FUND PROPOSAL. BY ESTABLISHING A PARKING PLACE FOR DEBT REDUCTION AT THE U.S. TREASURY, THE PRESIDENT ACKNOWLEDGED THE NEED FOR AN ACCOUNTING TOOL TO ASSURE THE PUBLIC THAT DEFICIT REDUCTION MONEY WAS TRULY GOING TO DEFICIT REDUCTION.

BUT THE PRESIDENT'S FUND HAS NO LEGS BEYOND ITS ACCOUNTING CLEVERNESS. FOR DEBT AND DEFICITS TO BE REDUCED, THE SPENDING CUT AND SEQUESTRATION MECHANISM OF H.R. 429 ARE NEEDED. ONLY THEN CAN CBO AND OMB SCORE REAL SAVINGS.

SEVERAL OTHER POINTS SHOULD BE NOTED FOR A FULL UNDERSTANDING OF H.R. 429. TAX INCREASES CANNOT BE USED TO OFFSET THE SPENDING CUT DEMANDS MADE BY TAXPAYERS EACH YEAR. WHILE CONGRESS WOULD STILL BE PERMITTED TO RAISE TAXES FOR OTHER REASONS, TAX REVENUES WOULD NOT COUNT AGAINST THE BASELINE REDUCTIONS REQUIRED BY THE BUY-DOWN PLAN. AND, ANY TAX INCREASES ON PERSONAL INCOME WOULD HAVE THE EFFECT OF GIVING TAXPAYERS MORE OF A LIABILITY AGAINST WHICH TO REQUIRE SPENDING CUTS.

THERE HAS BEEN SOME PUBLIC REACTION TO THE DEBT BUY-DOWN CONCEPT AND THAT REACTION HAS BEEN HIGHLY POSITIVE. PRESIDENT BUSH'S ENDORSEMENT OF THIS IDEA AT THE 1992 REPUBLICAN NATIONAL CONVENTION LED POLLSTERS TO GAUGE PUBLIC OPINION. A POLL DONE FOR THE BUSH CAMPAIGN SHOWED 66% OF AMERICANS SUPPORTING THIS NEW IDEA IN THE SUMMER OF 1992. PUBLIC SUPPORT INCREASED TO 75% IN A NATIONAL OPINION BALLOT DONE IN DECEMBER 1992. IN JUNE, 1993, THE NATIONAL FEDERATION OF INDEPENDENT BUSINESS FOUND 77% OF THEIR MEMBERSHIP FAVORED THE PLAN.

DEBT BUY-DOWN HAS BEEN INCLUDED IN A NUMBER OF CONGRESSIONAL INITIATIVES. THE FUNDAMENTAL COMPETITIVENESS ACT CONTAINED DEBT BUY-DOWN AS ONE OF ITS PROVISIONS. THE KASICH BUDGET DEBATED ON THE FLOOR EARLIER THIS YEAR CONTAINED THE DEBT BUY-DOWN PLAN. AND, CONGRESSMAN AL MCCANDLESS SOUGHT TO SUBSTITUTE H.R. 429 FOR THE PRESIDENT'S TRUST FUND PROPOSAL LAST YEAR WHEN CONSIDERATION TOOK PLACE BEFORE THE FULL HOUSE GOVERNMENT OPERATIONS COMMITTEE. THE HOUSE SUBCOMMITTEE ON SELECT REVENUE MEASURES OF THE COMMITTEE ON WAYS AND MEANS HAS ALREADY HELD A HEARING ON THIS LEGISLATION LAST FALL.

TAXPAYER DEBT BUY-DOWN HAS SEVERAL FACETS TO APPEAL TO YOU. THE CONGRESSIONAL BUDGET OFFICE HAS DOCUMENTED THAT OPTIMAL PERFORMANCE OF THIS PLAN, AS IT IS PRESENTLY DRAFTED, WOULD REDUCE BOTH FUTURE DEFICITS AND NATIONAL DEBT.

DEBT BUY-DOWN HAS PUBLIC SUPPORT. BETWEEN TWO-THIRDS AND THREE-QUARTERS OF THE AMERICAN PEOPLE WHO HAVE BEEN SURVEYED LIKE THE IDEA AND MOST WOULD PARTICIPATE IF GIVEN A CHANCE.

DEBT BUY-DOWN TAKES THE INTRACTABLE ISSUE OF SPENDING CUTS OUTSIDE THE HALLS OF CONGRESS AND INTO THE HOUSEHOLDS OF THE AMERICAN PEOPLE. THEY WOULD HAVE AN OPPORTUNITY NOT ONLY TO HELP DECIDE HOW MUCH CUTTING WOULD BE DONE, BUT THEY WOULD HAVE AN OPPORTUNITY TO HOLD THEIR REPRESENTATIVES ACCOUNTABLE FOR ACTING OR FAILING TO ACT ON THEIR WISHES. AND AT ANY TIME THE AMERICAN PEOPLE BEGAN TO BELIEVE THE SPENDING CUTS HAD GONE TOO DEEP, THEY WOULD HAVE AN ANNUAL OPTION OF NOT ASKING FOR ADDITIONAL REDUCTIONS.

DEBT BUY-DOWN IS A REVOLUTIONARY APPROACH TO A GROWING PROBLEM. THE NATIONAL DEBT PROBLEM HAS GROWN SO LARGE THAT IT DEFIES TINKERING AROUND THE MARGINS. REAL SOLUTIONS ARE GOING TO DEMAND BREAK-THROUGH IDEAS. THE DEBT BUY-DOWN BREAKS THROUGH MANY OF THE PROBLEMS CONNECTED WITH THE DEBT AND DEFICIT BY BYPASSING SPECIAL INTEREST PLEADINGS FOR EVER-LARGER BUDGETS AND GIVING A BROAD SEGMENT OF THE POPULATION A CHANCE TO REGISTER AN ANTI-SPENDING MANDATE EACH AND EVERY YEAR.

EMPTY PROMISES OF FISCAL RESPONSIBILITY ARE NO LONGER ADEQUATE. PUBLIC DISCOURSE WILL DEMAND REAL SOLUTIONS. ONLY BOLD ACTION WILL CONVINCE OUR CONSTITUENTS THAT WE ARE FINALLY PUTTING OUR FISCAL HOUSE IN ORDER. A BIPARTISAN EFFORT TO PASS THE DEBT BUY-DOWN ACT, AND THEREBY DEAL WITH THE TWIN TOWERS OF DEBT AND DEFICIT, WOULD BE WARMLY RECEIVED. YOU CAN BEGIN THAT BIPARTISAN EFFORT BY APPROVING H.R. 429. THANK YOU.

Mr. CONYERS. Well, thanks very much. It is one that is gaining popularity. But are you afraid that it does more for the wealthy than for ordinary citizens?

Mr. WALKER. I don't believe that that is the case at all, Mr. Chairman, because everybody is given a chance to take up to 10 percent of their tax liability. Of course, the tax liability of the wealthier citizens is greater, and they would be allowed to deduct up to 10 percent of their amount. But the fact is that all of it is money being collected by the government that average citizens then are designating to go to a purpose that they happen to believe in.

In order to reach the optimal circumstances that I talked about, virtually everybody would have to participate. I think that is what the country is all about.

And those who are wealthy would only be contributing an amount that we have previously designated is their portion of the tax burden.

Mr. CONYERS. I don't agree with Herbert Stein frequently, but as you know, he has suggested that this is a system for allowing the rich to decide on benefits for the poor. I am worried about the elitist possibilities of the wealthy weighing in, and then cutting entitlement benefits. Is this a legitimate concern?

Mr. WALKER. Well, entitlements are one place that Congress can cut. Remember, Congress prioritizes this. I would suggest to you, Mr. Chairman, that if in fact the rich were weighing in on this and this was the place where they were designating this money to go, toward debt buydown, it gives us a perfect excuse for ending immediately a lot of the entitlements that are out there for the rich.

There are a whole host of programs out there where the rich benefit and the average American does not. This would give us the perfect opportunity to suggest to the rich that if they want the debt bought down and they are so designating, maybe it is the entitlement programs that head their way that we ought to eliminate first. And we would do so on their own direction that that is what they want done.

I would suggest that that is the right way of approaching this. The other side of this is, at the moment the American people believe that the cuts that we are making are unfair or go beyond what they think is necessary, then next year they simply wouldn't designate the money.

If there was anything that spoke of inequity in this, the American people would control that because the next year they would decide not to designate the money for debt buydown.

Mr. CONYERS. I am glad to find many wealthy are also getting entitlements and that they could reduce their own share. But it still leaves the wealthy taxpayers deciding the future of the Nation's less wealthy citizens. And it might be that they may not choose to put their own self-interest on the block. I am afraid I don't think that that would happen.

I think it would happen maybe in the opposite way.

Mr. WALKER. Only if Congress didn't make it happen. I mean, the fact is that would be up to Congress. They aren't designating any particular programs. All we would have is the fact that the money was designated for debt buydown and therefore for deficit

reduction. So Congress could then easily make the decision, OK, this is where the money is coming from, let's look at the programs for those people who contributed to this.

And I would suggest there are a whole host of programs out there that wealthy as well as poor Americans participate in, that are entitlements from the government or in many cases discretionary programs that benefit the very wealthy.

And I would join you in suggesting that maybe it is high time when we have \$4.5 trillion in debt that we allow some citizens to pay their own way if they can afford to pay their own way. This gives them an opportunity to utilize their own decisionmaking to get to that point.

Mr. CONYERS. It is certainly unique and it is something we have to face up to. Your proposal is receiving more and more attention. When CBO looks at it, that certainly grabs the attention of the members of this committee. I want to thank you for bringing it to our attention and recognize Al McCandless at this time.

Mr. MCCANDLESS. Thank you Mr. Chairman.

Bob, I like the concept, but in the private sector we used to have what was referred to as cash-flow, and so I pose this question to you within that framework: How are we going to ascertain how much is going to be devoted to the trust fund, public debt reduction trust fund, in any one given year based upon the desires or willingness or the motivation of the individual tax payers?

Mr. WALKER. The amount would be the amount that—in other words, on their tax form they would specify that a certain amount of their taxes is—let's say they are paying \$2,000 in tax. They could designate 10 percent of that money. That would be \$200. That \$200 would be put into the trust fund. The trust fund already exists. President Clinton has put into place the trust fund. It is voluntary at this point in time.

This would allow the money to be collected in that trust fund. That money would be used to buydown the debt instruments that are already in place. The calculation that would have to come here, that is fairly easily done. You have the tax forms coming in. The calculation that would have to be done is how much you would have to designate then to the overall amount of spending.

That is the reason why we allow time for Congress within the appropriations process to actually adjust then the accounts to take care of what people have designated they want cut.

Mr. MCCANDLESS. Here is what I am referring to: For lack of a better way of expressing it, it would be a motivation of the individual or individuals, political motivation, let's say that Congress is doing everything that this person considers wrong.

I am going to show these people I haven't been able to get my Congressman. So I am going to show him. I am going to commit the whole enchilada, 10 percent. Conversely, somebody else says, I really like what they are doing and I think the money should be given to them for budgetary purposes, so I am not going to do anything.

How do we reconcile what is eventually going to end up being the resources of the Federal Government for purposes of the budget?

Mr. WALKER. That is the reason—

Mr. MCCANDLESS. You don't know this until after the tax returns have been filed and the figures compiled.

Mr. WALKER. And what we have is we have a time sequence within the bill that allows those calculations to be made based upon the reality of what arrived on the tax returns, and then we allow the process to work through. I think the cutoff date on all this is September 30, so that you would have a total understanding of all of the moneys by that particular time.

And I would have to go back, but we have worked through all of that, and at the time that President Bush endorsed this in his campaign in 1992, we worked it through with OMB and with others to assure that the time sequences and so on would be such that the government would have a firm idea of what their obligations were, and that they could be worked into the budget process in a way that gives us real figures.

There is no doubt that what would happen here is that you would have the percentage of the government's participation in the GDP would be steadily reduced if this worked optimally.

But I don't believe there is a cash-flow problem because we have allowed sufficient time for all of those calculations to be made and then worked into the appropriations process.

Mr. MCCANDLESS. One last question. This is the \$64 question. There is a shortfall based on what the majority of Congress wants in the way of a final budget, for whatever reason, that money is to be expended. So they simply say, we are going to raise taxes and take care of it.

Mr. WALKER. Under this particular plan, you cannot use tax increases against the amount that the American people have designated. It would not prevent Congress from raising taxes to do things, but they could not be included as a part of meeting your obligation for the debt buydown under the bill I have in. So tax increases are not a part of the debt buydown.

Mr. MCCANDLESS. I understand that, but there is a shortfall in my favorite program, and I am a committee chairman. With all due respect, Mr. Chairman, I want to see that program continue in its current funding. So here is a tax to make up—

Mr. WALKER. But then the political process comes into play and you have to be able to pass that tax increase. You have to go to the American people and tell them that you are raising taxes on them for the program. Ultimately there are major political consequences on passing tax increases.

But that is not involved in this program. This program says that you cannot use taxes for this program, and so therefore insofar as it forces us to decide that we are going to fund things either through taxes or we are actually going to cut them, it seems to me we take that debate to the American people.

I happen to believe that my side of the argument wins that debate both times, if it is a debate between taxes and spending and debt and spending. The problem right now is that we are doing the spending, but we are simply adding it on to debt and that looks like easy money.

What you are suggesting is exactly the argument I think we ought to take to the country, and that is if you are going to have

the spending, you ought to be able to pay the political price of suggesting the taxes to pay for it.

Mr. McCANDLESS. Thank you.

Mr. CONYERS. An interesting concept, and we are going to continue to study it. As you can see, there are parts of it that are favored and then there are those hidden concerns behind any new proposal of this dimension. I thank you, though, for bringing it forward here again. Good to see you.

Could I invite Mike Synar to join Tom Lewis? I understand you are on a tight timeframe. Tom, why don't you start off?

STATEMENT OF HON. TOM LEWIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. LEWIS. Let me congratulate you for adding another notch to your political biography. I also want to thank you for the opportunity of allowing me to be here this morning to discuss with you H.R. 1056, which removes the civil service retirement and disability fund from the budget.

In 1986, Federal retirees were denied cost-of-living adjustments due to a budget sequester under the Gramm-Rudman Deficit Reduction Act, and Social Security retirees received their full COLA. And Federal retirees were justifiably upset about this blatant inequity.

Congress took action in 1986 to ensure future Federal retiree COLAs. I felt we should correct the unequal budget status of Social Security and the civil service retirement fund. That is when I first introduced legislation to remove the civil service fund from the budget. Specifically, H.R. 1056 removes receipts and disbursements of the fund from the President's budget, the congressional budget, and the Gramm-Rudman Deficit Reduction Act. This bill serves two purposes, Mr. Chairman. It seeks to achieve some measure of fairness for Federal retirees. It does this by giving their pension fund equal budgetary status with Social Security.

No. 2, truth in budgeting, to get a more accurate picture of the spending. The civil service fund was created, as you know, as an independent fund in 1920 and remained so until 1968 when it was removed and placed in the budget by President Johnson.

Since that time, the surpluses of the fund have contributed to hiding the true size of the Federal deficit. Now, I realize that removing the civil service fund from the budget raises some technical questions and issues regarding budget rules.

It is my understanding that the Office of Personnel Management has had the off budget idea under consideration for some time, and OPM could be very helpful in resolving these technical questions.

I would like to stress that restoring the fund's off-budget status results in no additional expenditures. Federal retirees deserve to be treated equally with other retirees, and I am grateful to the subcommittee for its consideration of this issue.

Mr. Chairman, I would like to request that the subcommittee look into this, hopefully next year, and start looking at a vehicle that would place the Federal retirees' pensions off budget.

That is the picture, Mr. Chairman. Equality and fairness is what this legislation is all about.

[The prepared statement of Mr. Lewis follows:]

Testimony of the Honorable Tom Lewis of Florida
before the Subcommittee on Legislation and National Security
of the Committee on Government Operations

August 4, 1994

Mr. Chairman, thank you for allowing me the opportunity to come before you today to testify on H.R. 1056, legislation I introduced to remove the Civil Service Retirement and Disability Fund from the federal budget. This bill, which is endorsed by the National Association of Retired Federal Employees, is intended to provide federal retirees' pensions equal budgetary status with Social Security. Among the bill's 75 bipartisan cosponsors are 9 members of the Committee on Government Operations, including Ms. Brown and Ms. Maloney of this Subcommittee.

Social Security was removed from the federal budget in order to protect retirees' benefits from budget cuts. Because Social Security is off-budget, the benefits of the majority of American retirees are not subject to the budget reconciliation process. Unfortunately, federal retirees' pension benefits remain vulnerable to cuts, they are still included in reconciliation, because their retirement fund remains on-budget.

This vulnerability resulted in federal retirees being denied cost-of-living adjustments due to sequestration in 1986. That same year, Social Security retirees received a full COLA. While Congress took positive action to restore federal retiree COLAs in 1987, we still have not addressed the unequal budgetary status of these two retirement systems.

I first introduced this legislation in the wake of the 1986 sequestration that so vividly illustrated the unequal status of federal retirees, and I have reintroduced it in every subsequent Congress. H.R. 1056 would remove the receipts and disbursements of the Civil Service Retirement and Disability Fund (CSRDF) from the President's budget, the Congressional budget, and the Balanced Budget and Emergency Deficit Control Act of 1985.

From its beginnings in 1920 until 1968, the CSRDF was an independent trust fund. President Johnson first included the fund in the general budget when he submitted his fiscal year 1969 budget. At that time, the fund's surpluses served to mask the cost of the Vietnam War. Today, the CSRDF surplus helps hide the true size of the federal deficit.

Removing the CSRDF from the general budget will give us a clearer, more accurate picture of the federal deficit and will ensure that CSRDF moneys are used for their intended purpose. This is a basic truth-in-budgeting issue that should be addressed.

I recognize that granting off-budget status to the CSRDF raises several technical issues with respect to pay-go mandatory spending requirements and the discretionary spending caps. These issues can be resolved, and it is my understanding that the Office of Personnel Management has had the off-budget idea under consideration for some time and may have some solutions to offer.

I commend the members of this subcommittee for your interest in this issue, and encourage your continued efforts to improve the budget process and bring fairness to federal retirees. Thank you.

Mr. CONYERS. Thanks, Tom. Before Mike Synar begins, could I invite Chairman Mineta and Mr. Traficant to join us? This is our last panel, and we will go right down the line. We have several different, but not particularly competing ideas, so don't feel alarmed about the nature of this panel as we have reformed it.

Subcommittee Chair Mike Synar.

STATEMENT OF HON. MIKE SYNAR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OKLAHOMA

Mr. SYNAR. Thank you, John. Congratulations on your victory on Tuesday. Glad to have you back for another term.

Let me say real briefly that the testimony you have heard presented by my colleagues, and what I am going to say with respect to reform, is significantly different. You know, the simple truth, is that while responsible process reform, which is what a lot of these colleagues of mine are arguing for, may help on the margin, only tough, consistent, fiscally responsible spending and revenue legislation based upon substantive common sense budgeting is going to get the Congress and the President to balance the Nation's budget and to reduce the national debt.

Now, making those tough budget decisions and sticking to them, I think, has put our Nation on the road to economic recovery. We have been prepared and have made the tough cuts and the tough budget process reforms. However, they have to be sensible.

You know, there is an argument to be made that too much medicine can kill the patient, and those who have proposed some of these budget reforms may result in more draconian cuts or what are called politically unpopular, but fiscally responsible programs may be affected. And that indeed will adversely affect the economy.

One thing I think we ought to consider, though, and I think it is sensible budget reform, is a process called fire sale disclosure, which I have been involved in along with Leon Panetta when he was here and then at OMB. Basically it comes down to this: We as taxpayers lose billions when the Federal Government sells or exchanges. Our Federal Government often fails to obtain the fair market value. The deficit is impacted because the government agencies refuse to operate as proven sellers of our public resources.

Let me give you some of the examples of this. Low cost timber sales, no royalty on mineral claims, questionable land exchanges, no rent land leases and transfers, under collection of oil and gas royalties, subsidized grazing on public lands, below market value concession contracts in recreation areas, and below cost uranium enrichment services, buildings lost each year because the government is basically a sucker when it does not run like a business.

I would offer in the legislation to require the administration in its annual budget submission to Congress to include a separate statement of the projected revenues that are anticipated from the sale, lease, and transfer of any fiscal asset, and, in addition, to include the estimated fair market value of those programs and transactions. Now, why do we need that?

That will allow all of us to make an informed decision and to judge it against the program's benefits to society and make an informed decision on the merits of each category of loss or subsidy.

Now, let me emphasize that I am not against subsidies per se. Congress has shown that many of them can have important social goals. But we are ill-equipped in Congress to make those judgments if we don't even know what the actual cost of the subsidy is.

I would note in closing that the legislation I am offering doesn't require similar informational statements with respect to so-called revenue expenditures or tax subsidies. However, in light of Congress' increasing need to probe every nook and cranny of the budget for additional savings, I believe your committee may want to even add that to this proposal.

This requirement is simple, direct and useful, and I hope it will either be adopted as part of the package or a freestanding bill as we advance this legislation through Congress.

[The prepared statement of Mr. Synar follows:]

STATEMENT OF THE HON. MIKE SYNAR (D-OKLA)
Chairman, Subcommittee on Environment,
Energy and Natural Resources

Before the Government Operations Subcommittee on
Legislation and National Security
Regarding Budget-Related Reforms
August 4, 1994

Mr. Chairman, members of the Subcommittee, I appreciate the opportunity to appear today as you continue your series of hearings on budget process reform. Let me say at the outset that my views on budget process reform differ significantly from some of the testimony presented by my colleagues today.

Solid fiscal leadership from the White House, the budget package narrowly approved by Congress last August, and a recovering national economy have reduced the budget deficit and federal spending more than many of the process reforms currently under consideration could ever hope to achieve. The simple truth is that while responsible process reform may help on the margin, tough, consistent votes for fiscally-responsible federal spending and revenue legislation based on substantive, common sense budgeting is the only way Congress and the President will balance the nation's budget and begin to reduce our national debt.

Proof of this is in the impact of the budget package we passed almost a year ago today. That package cut spending by \$255 billion -- including a twelve percent real cut -- in discretionary spending over 5 years. In the first year alone, over 300 programs were cut and there were reductions in nearly every entitlement -- amounting to over \$80 billion in entitlement savings. Year two of budget plan, sent to Congress by the President in February, cut spending in 379 of the 626 major spending accounts (60% of all accounts) including the complete elimination of 115 programs. In addition 10 of 14 major Departments were cut in real terms and

7 of 14 were cut even if no inflation is taken into account. Many of these cuts have been preserved, and expanded on, by Congress as the 13 appropriation bills have moved toward final passage during the year. None of these cuts were the result of budget process reform. They resulted from tough decisions made by the President and those in Congress willing to practice fiscal responsibility.

The result of this responsible fiscal leadership? Current economic data predicts an FY '95 budget deficit of approximately \$170 billion, still unacceptable but over \$100 billion less than was forecast when President Clinton took office - a 40 percent decrease in the projected deficit. As a percent of GDP, the deficit has dropped from an estimated 4.3 percent in FY '93 to a predicted 2.4 percent of GDP in FY '95. According to the OECD, this represents the lowest deficit, as a percent of GDP, of all the world's major economies.

Making tough budget decisions and sticking to them has put our nation on the road to economic recovery. Tough cuts and tough budget process reforms, however, must also be sensible. Too much medicine can kill the patient and those who propose budget reforms that result in more draconian cuts, or cuts in politically unpopular, but fiscally responsible programs, may adversely impact our economy. Early returns on last summer's budget package indicate that the economy is growing at a healthy, job-creating pace without showing any ill effects from the cuts in government spending already enacted. At 6.5 %, unemployment is the lowest it has been in years, business investment is growing at its fastest pace since 1972, 2.3 million new jobs have been created in the last 14 years and core inflation in 1993 was the lowest in 20 years.

One sensible budget reform process proposal that I have championed in the past before this Subcommittee is H.R. 742, the so-called "FIRE SALE Disclosure" bill which I introduced

early last year. Leon Panetta was the primary cosponsor of this proposal when I introduced it in the last Congress and I hope we can count on his continuing support for it now that he is sitting at the other end of Pennsylvania Avenue trying to help us balance our budget. The proposal makes good sense and, in my view, should be included in any package of budget-related reforms adopted by the Congress.

Mr. Chairman, each year the federal government and the taxpayers lose billions of dollars selling, leasing, renting and exchanging taxpayer-owned assets. In thousands of transactions a year, the federal government fails to obtain the fair market value for these taxpayer-owned assets, because the pricing decisions are either shielded from Congressional and public scrutiny, or are masked by questionable accounting practices. As a result, the deficit is impacted because government agencies refuse to operate as "prudent sellers" of the public's resources.

The Subcommittee on Environment, Energy and Natural Resources, which I chair, has investigated many such transactions and natural resource subsidy programs over the past decade. Many others have as well: the General Accounting Office, the Congressional Budget Office, Inspectors General, and numerous private groups have detailed monumental sums of lost revenues attributed to "fire sale pricing" for disposal or use of various federal assets.

Billions of dollars have been lost over the past few years to pricing practices such as below-cost timber sales, no-royalty hardrock mineral claims, questionable land exchanges, no-rent land leases and transfers, undercollection of oil and gas royalties, subsidized grazing on public lands, below-market value concession contracts at recreation areas, and below-cost uranium enrichment services. Yet nowhere in the President's 1,300-page budget submission can Members of Congress or the public find a detailed listing of these subsidies or the cost to the Treasury of

each program or category of transactions that actually lose money.

I want to be very clear about one point: there are sound and justifiable reasons for many federal subsidies. The problem, however, is that many of the subsidy pricing decisions are made outside legitimate public policy parameters, and many have not been reviewed for years because Congress is not routinely provided information by the Executive Branch on the real cost of these programs and transactions. In this respect, they're like the Energizer Bunny: they just keep going and going.

Let me give you an example of these losses. Almost every year, the U.S. Forest Service issues a press release announcing how much net revenue, or "profit", the timber sales program made in the past fiscal year. That announcement usually cites hundreds of millions of dollars in "net revenues" to the Treasury. In fact, Mr. Chairman, the Forest Service can claim "net profits" to the Treasury only by way of some creative bookkeeping techniques, and it took extensive investigation for us to learn that fact. When necessary to help show "profits" to the Treasury, the Forest Service accounting system allows them to amortize roads (a major program expense) over 500, 1,200 or -- remarkably -- even 1,800 years. (By comparison to reality, these roads actually last about 25-30 years.) Only the government is allowed to cook its books with such ridiculous and misleading accounting techniques. In the absence of investigations like the one I just mentioned, Congress would have no way of knowing that the timber sales program actually loses hundreds of millions of dollars a year in real money.

This is just one example of the problem, but unfortunately there are many more. Mr. Chairman, I submit that Congress shouldn't have to do that kind of extensive investigation to learn the truth about these important budget issues. But we do, because there currently is no

requirement that the Executive Branch provide specific information to Congress about the real costs of these transactions in terms of losses to the taxpayers and the subsidies provided to various beneficiaries under these programs.

To correct this deficiency, and to ensure that Congress has the information it needs to make sensible budgetary and policy decisions about asset-based losses and subsidies, I introduced H.R. 742. It is a very simple bill, based on a simple premise: information is power. In this time of extraordinary concern over the deficit, Congress must have the information it needs to scrutinize each and every federal expenditure or revenue loss.

My bill helps Congress carry out that responsibility, by requiring the Administration, in its annual budget submission to Congress, to include a separate statement of the projected revenues anticipated from the sale, lease, or transfer of any physical asset and, in addition, to include the estimated fair market value of those programs or transactions. This itemization and comparison will disclose to Congress and the public the actual amount anticipated to be lost each year from these transactions, and will allow us to take that information, judge it against the program's benefits to society, and make an informed decision about the merits of each category of loss or subsidy.

Let me emphasize again: I am not against subsidies per se. We know from experience that many are useful and advance important societal goals; these should be retained. But Congress is ill-equipped to make these judgments if we do not know the actual cost of the subsidies. In short, information disclosure is the sole purpose of my legislation. I might add, parenthetically, that the estimates required of the Administration for both expected revenues and the fair market value of these transactions are calculations they are well-equipped to make.

The requirements of the bill are simple, direct, and useful and I hope this Committee will look favorably upon it and adopt it as a free-standing bill or as part of any budget-reform legislation advanced by the Committee.

I would note before closing that the legislation, as currently crafted, does not require a similar informational statement in the budget submission concerning the costs of so-called "revenue expenditures" or tax subsidies. However, in light of Congress' increasing need to probe every nook and cranny of the budget for additional savings and potential sources of revenue, I believe the Committee may want to give serious consideration to expanding the scope of the bill to include such an informational statement concerning tax subsidies.

As the Congressional Research Service testified on February 3, 1993: "Many, perhaps most, [tax expenditures] persist unchanged year after year", even though the conditions that gave rise to them "may frequently bear little relationship to today's conditions".

As I reflect further on the legislation, I believe the same argument can be made concerning these tax expenditures as can be made about resource-based losses: we cannot make well-informed budget decisions until and unless we know the facts. In my view, it's high time Congress insisted on knowing the extent of all of these losses-- both resource-based and tax-based --in a clear, concise and honest way. Only then will we be able to scrutinize each and every one and make informed, reasoned judgments about their individual merits.

Many subsidies will be continued by Congress because they advance goals that are important to the public and to the Nation. Others may be cut back or eliminated on grounds that they are no longer justified or are unreasonably costly. But we can not wisely chose between them if we do not know their real cost to the taxpayers.

I strongly urge the Committee to act favorably on H.R. 742, so that any budget-related reforms can include this very simple and responsible requirement. Thank for the opportunity to present this statement in support of H.R. 742 and sensible budget process reform.

Mr. CONYERS. Thanks, Mike. I have one question I want to ask you. Have you considered the fact that the government is not just another business, but also receives significant benefits in lieu of money, such as the consideration of increased economic activity, employment, that in ways fully compensate the Federal Government beyond the marketing cost theory?

Mr. SYNAR. Absolutely. In fact to say we ought to run a government like a business really demeans the role of government. My argument is that in running Federal resources, in just simply running the resources that we have the responsibility to run, we should at least get the fair market value for those resources because anything less than that really takes away from the economic responsibility and fiduciary responsibility that this government has to our taxpayers.

Mr. CONYERS. We are in agreement there, and I see where you are coming from. And I think you have got an attractive recommendation—because you are only asking for a statement, a separate statement that would address this subject matter.

Let me turn now to Chairman Mineta and Jim Traficant of Ohio, both of whom have been talking with me about the lease situation and how it might be considered in under the budget rules, since there is so much property being bought, sold, rented, leased by GSA and the Federal Government.

And I know both of you gentleman have given this a lot of consideration. Jim Traficant has approached me about this subject on more than one occasion, and I am delighted that you are both here to put it in the record.

I would ask that your statements be reproduced fully in the record, and then you may make additional comments as you choose.

STATEMENT OF HON. NORMAN MINETA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. MINETA. Thank you very much, Mr. Chairman, for this chance to be with you and Mr. McCandless and Mr. Spratt. As chair of the full Committee on Public Works and Transportation and with my very distinguished colleague and friend, Mr. Traficant, who chairs our Subcommittee on Public Buildings and Grounds, we want to be here to testify in support of H.R. 2680.

This would amend the Public Buildings Act of 1959 concerning calculations of public building transactions. This is just a very short, one-paragraph bill which returns to the General Services Administration the authority to acquire an equity position in real estate in those instances where a long-term stable Federal need has been identified.

The General Services had this authority prior to passage of the 1990 Budget Enforcement Act. However, the scoring rules which were established by that act effectively stopped GSA from using the most effective method of meeting the Federal Government's long-term real estate needs.

Mr. Chairman and members of the committee, it is the classic case of the law of unintended consequences. While the Budget Enforcement Act was well intended in its attempts to control spending, the application of the current scorekeeping, as it relates to real

estate, and only real estate, has created a spending and financial situation which frankly, from our perspective, is a congressional embarrassment.

The leasing budget has rocketed up like a Titan missile over the last 6 years. In fiscal year 1988, the leasing budget was approximately \$1.1 billion. In fiscal year 1990, the rental budget had increased by \$200 million—from \$200 million to \$1.3 billion.

The fiscal year 1995 budget request was approximately \$2.2 billion, a 100 percent increase in just 6 years.

There has been a spectacular vertical rise in leasing costs since the Budget Enforcement Act of 1990, and the application of the scorekeeping rules as they relate to the acquisition of real estate. We believe that real estate is a particular capital asset whose very use generates income through a rental payment, and therefore should be seriously considered for financing which takes advantage of and leverages this income stream.

Lease purchase, as we would commonly call mortgage-type payments, would do for the Federal Government what it does for individual consumers such as you and me.

This acquisition strategy allows us to acquire an equity at the same time through periodic payments. This asset increases in value and is viewed as an investment. Practice is, it will return benefits to the owner.

It seems to us that the Federal Government should be allowed that same flexibility to make an intelligent decision regarding how to spend its money in real estate, and not be harmed or hampered by accounting and budget rules which are aimed at short term fixes for the deficit.

Congress plays a vital, pivotal role in that decisionmaking process. However, due to the scorekeeping rules, the Congress in general and our committee in particular are not presented with a full range of acquisition options.

We are limited to only two choices: either direct appropriation for Federal acquisition or, at the very extreme, very costly, long-term leases, and both choices are to satisfy and establish long-term Federal need in a particular location.

Even in this time when there are a number of real estate bargains, there have been no funds allocated to GSA to purchase existing buildings. And since 1988, GSA has not had funds to enter the marketplace as a competitive consumer.

So let me just indicate to you again, Mr. Chairman, how very, very important it is that we have this kind of flexibility and that we be allowed to do essentially this kind of lease purchase and be able to get away from the scorekeeping that hampers us from doing the right thing, especially in a real estate market as we are experiencing today.

And we feel that both in terms of good public policy and in terms of good financial decisionmaking, that H.R. 2680 will restore to the General Services Administration the authority that it had previously enjoyed and that will give us in the Congress the ability to make a fully informed decision.

H.R. 2680 is not intended to promote construction of new Federal buildings. Its purpose is to ensure that the Federal Government

has the tools available to it to make the best financial decisions for the American people.

So again, Mr. Chairman and Mr. McCandless, Mr. Spratt, we thank you for this opportunity to be before you, and let me at this time call on, if I might, Mr. Chairman, my very fine colleague, the chair of the Public Buildings and Grounds Subcommittee, Mr. Traficant.

[The prepared statement of Mr. Mineta follows:]

STATEMENT BEFORE
COMMITTEE ON GOVERNMENT OPERATIONS
SUBCOMMITTEE ON LEGISLATION AND
NATIONAL SECURITY
CHAIR NORMAN Y. MINETA

H.R. 2680

AUGUST 4, 1994

ROOM 2154

Good morning, Chairman Conyers, and members of the Subcommittee on Legislation and National Security.

I thank you for your kind invitation and opportunity to appear before you today, along with Congressman Traficant, Chair of our Subcommittee on Public Buildings and Grounds, to testify in support of H.R. 2680, the Committee on Public Works and Transportation bill which

would amend the Public Buildings Act of 1959 concerning calculations of public building transactions. This short one-paragraph bill, in essence, returns to the General Services Administration the authority to acquire an equity position in real estate in those instances where a long-term, stable Federal need has been identified.

The GSA had this authority prior to passage of the 1990 Budget Enforcement Act. However, the scoring rules which were established by that Act effectively stopped GSA from using the most effective method of meeting the Federal government's long-term real estate needs. Mr. Chairman, and members of the Committee, it is the classic case of the "law of unintended consequences". While the Budget Enforcement Act was well intended in its attempts to control spending, the application of the

current scorekeeping rules to real estate, and only to real estate, has created a spending and financial situation which is a Congressional embarrassment.

The leasing budget has rocketed up like a Titan missile over the last six fiscal years. In FY 1988 the leasing budget was approximately \$1.1 billion. In Fiscal Year 1990 the rental budget had increased by \$200 million to \$1.3 billion. The Fiscal Year 1995 budget request was approximately \$2.2 billion, a 100% increase in just six years! There has been a spectacular vertical rise in leasing costs since the BEA of 1990 and the application of scorekeeping rules to the acquisition of real estate. We believe that real estate is a particular capital asset whose very use generates income through a rental payment, and

therefore should be seriously considered for financing which takes advantage of, and leverages this income stream. Lease purchase, or as we would commonly call "mortgage type" payments, would do for the Federal government what it does for individual consumers such as you and I. This acquisition strategy allows us to acquire an equity interest in real estate through periodic payments. This asset increases in value, and is viewed as an investment; that is, it will return benefits to the owner. The Federal government should be allowed the same flexibility to make an intelligent decision regarding how to spend its money in real estate, and not be hampered by accounting and budget rules which are aimed at short-term fixes for the deficit. Congress plays the vital, pivotal role in that decision making process. However, due to

the scoring rules the Congress in general and my Committee in particular are not presented with a full range of acquisition options. We are limited to only two choices -- either direct appropriations for Federal acquisition, or at the other extreme very costly long-term leases -- both choices are to satisfy an established long-term Federal need in a particular location. Even in this time of exciting real estate bargains there have been no funds allocated to GSA to purchase existing buildings. Since 1988 GSA has not had funds to enter the marketplace as a competitive consumer. Congress is faced with the confounding choice of either authorizing and appropriating for direct Federal construction or authorizing and funding long-term leases. The Congress is precluded from analyzing and comparing these alternatives to lease

purchase, lease with an option to purchase, lease with an option to purchase at fair market value or a pre-determined price. Due to the current scoring rules, these options are not available for consideration.

Long ago, we acknowledged that direct Federal construction, or even acquisition was usually the most economical choice. However, our members have steadfastly held that lease purchase is more appropriately compared to other leasing strategies -- and in almost all cases when this more appropriate comparison is made, lease purchase is less expensive than long-term leases.

Congress's inability to evaluate and analyze a full range of acquisition strategies has produced some bizarre

results. Each year my Committee is presented with GSA prospectuses for real estate which include such information as agency, location, delineated area, size, and special needs. Many of you have Federal projects in your districts and are familiar with this process. In addition, the financing alternatives are included using 30-year present value analysis. For Fiscal Years 1993-1995 budget submissions we have seen prospectuses which recommend some form of equity acquisition. But due to the scoring rules, long-term leasing is chosen. In black and white are figures which indicate this choice is by far the most expensive choice over 30 years. This kind of decision making, based on limited choices, is debilitating and non-productive for Congress. These practices are wasting billions of dollars at a time when the

Administration is actively pushing, as we all are, deficit reduction activities.

According to OMB these rules were put in place to save money. But in testimony given on this bill last October before our Subcommittee, OMB was unable to quantify any savings associated with the current scorekeeping rules. OMB says these rules will save money, yet they approved a \$700 million project in Atlanta which was fashioned as a long-term lease due to scoring requirements. Only direct action by the Committee on Public Works and Transportation succeeded in reducing the figure to approximately \$300 million.

Even the President's and Vice President's National Performance Review concedes there is a bias in the budget against long-term investment.

Mr. Chairman, and my fellow colleagues, we have studied this situation for almost two years. We have written to OMB on several occasions. We have introduced a bill which has strong bi-partisan support, and we have held hearings. The principles and the staffs have met. We have even offered several suggestions to allow for a small program of real estate acquisition to move forward. Now is the time for Congress to reassert itself, on behalf of the American taxpayer, into the decision making process and for Congress to decide which financing option, chosen from a full range of traditional real estate

financing schemes, will be the preferred and most beneficial financing strategy for the Nation. Congress can only be responsive if GSA's fully authorized to present Congress with all the funding choices. H.R. 2680 will restore to GSA the authority it previously enjoyed, and will allow Congress to make a fully informed decision. H.R. 2680 is not intended to promote construction of new Federal buildings. It's purpose is to ensure that the Federal government has the tools available to it to make the best financial decisions for the American people.

Thank you again Chairman Conyers for holding this hearing on H.R. 2680, and I urge your Committee's support for the bill.

STATEMENT OF HON. JAMES TRAFICANT, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF OHIO

Mr. TRAFICANT. Congratulations on your victory, Mr. Chairman. I am very proud to be with you and proud to be with our chairman of Public Works. I think our committee has done a fine job in a lot of areas and Mr. Mineta deserves much of that credit.

This bill has come about for several reasons, and I think it has been explained rather well by the chairman. I think we have a problem with OMB. And OMB is running the real estate program of the U.S. Congress, not the Congress.

I think the chairman was very nice about that, as chairman of the subcommittee, that is my analysis. Here is why: The Office of Management and Budget approves a lease for Atlanta. It was close to three-quarters of \$1 billion. A 30-year lease, OMB signed off on that. That would have been three-quarters of \$1 billion. And there would be no equity position for the U.S. taxpayer at the end of that lease.

I would not approve of that. Our subcommittee and our committee took issue to get around the scoring. OMB directed a \$240 million acquisition up front rather than change scoring.

Our committee believes we are tying the General Service Administration's hands behind their back. They can't make the best deal for the American taxpayer, it is impossible under our scoring rules.

So if you will, for the deficit-minded people trying to make things look rosy, they would much rather have had a 30-year lease in Atlanta at three-quarters of \$1 billion. They come up with the first 1-year appropriation because that is the only choice they had.

The GSA in 1989 was subject to review of 43 projects by the General Accounting Office and they reviewed 43 leases. The General Accounting Office said we could have saved \$12 billion in those 43 projects with more prudent congressional behavior.

Here is exactly what we are saying: We are not trying to open up the mechanism to finance submarines and aircraft carriers. H.R. 2680 deals strictly with real estate. The chairman said, "We don't want to build an awful lot of new buildings, but we want to effect the best deal the taxpayer can have."

Right now there is only two choices. A lease looks good because only the annual cost of the lease is second, and a 1-year cost of a 30-year lease is a lot less than building and financing an equity position in that year. So Atlanta underscores it, and here is where we are.

We have the Office of Management and Budget basically running the real estate policy of the country. Contrary, I am not under the impression Congress should do that, I am that the Budget Committee will move away from the numbers game and start talking about the quality and quantitative aspect of a loss of huge amounts of money by limiting our real estate program.

That is what H.R. 2680 is all about. As the chairman of the subcommittee, I am asking if there is no specific intention of your committee to involve that in any legislation, to report it out as soon as possible, and if there is, we welcome your improvements. Your improvements have been very helpful and we appreciate them.

But if in fact there is none, let our committee go forward in our appointed rounds, pursue this legislation that is in the best inter-

ests of our taxpayers, and furthermore underscores the fact that the Congress of the United States sets policy, not the Office of Management and Budget. And the General Services Administration should be reporting to its oversight process throughout Congress and not to the White House. I appreciate the opportunity to testify here. I hope that we can get some help from you, some collateral position to aid us in our goals.

[The prepared statement of Mr. Traficant follows:]

STATEMENT BEFORE
COMMITTEE ON GOVERNMENT OPERATIONS
SUBCOMMITTEE ON LEGISLATION AND
NATIONAL SECURITY

THE HONORABLE JAMES A. TRAFICANT, JR.

H.R. 2680

AUGUST 4, 1994

ROOM 2154 RAYBURN HOUSE OFFICE BUILDING

THANK YOU, CHAIRMAN CONYERS
AND OTHER MEMBERS OF THE
GOVERNMENT OPERATIONS COMMITTEE
FOR HOLDING THIS HEARING AND FOR
INVITING CHAIRMAN MINETA AND ME
TO TESTIFY ON H.R. 2680, A BILL TO
RESTORE TO GSA THE AUTHORITY TO

TIME FINANCE REAL ESTATE
TRANSACTIONS. AS CHAIRMAN MINETA
HAS STATED, CHAIRMAN CONYERS, THIS
ISSUE OF SCORING AND GSA'S INABILITY
TO TIME FINANCE REAL ESTATE IS AN
ISSUE MY SUBCOMMITTEE HAS
REVIEWED, STUDIED, AND EVALUATED
FOR OVER A YEAR AND A HALF. IT IS AN
ISSUE WHICH HAS BROAD BIPARTISAN
SUPPORT AMONG ALL MEMBERS OF MY
COMMITTEE. ATTEMPTS HAVE BEEN
MADE TO PORTRAY THIS FUNDING ISSUE
AS COMPLEX AND COMPLICATED.
BUDGET JARGON, TECHNICAL CBO
TERMS, AND FEARS OF EXPLOSIVE
SPENDING BY CONGRESS HAVE BEEN

INTRODUCED INTO THIS DISCUSSION. HOWEVER, WHEN ALL THE TECHNICAL "MUMBO JUMBO" IS PUSHED ASIDE THE ISSUE IS WHETHER CONGRESS IS GOING TO CONTINUE TO UNNECESSARILY WASTE BILLIONS OF SCARCE TAX DOLLARS EVERY YEAR ON LONG-TERM LEASES, WHEN ANALYSIS CLEARLY SHOWS THAT GOVERNMENT OWNERSHIP IS MUCH MORE ECONOMICAL. MR. CHAIRMAN, AS MR. MINETA HAS STATED, WE HAVE OPENLY ACKNOWLEDGED THAT OUTRIGHT PURCHASE OR CONSTRUCTION IS USUALLY THE MOST ECONOMICAL MANNER TO ACQUIRE

FEDERAL SPACE. IN FACT, IN A DIFFERENT BUDGET CLIMATE IT WOULD BE EASIER TO REQUEST DIRECT APPROPRIATIONS FOR THE ACQUISITION OF ALL NECESSARY FEDERAL OFFICE SPACE. HOWEVER, WE ALL HAVE TO LIVE WITH THE REALITY OF COMPETITION FOR THE FEDERAL TAX DOLLAR. IN THE CASE OF REAL ESTATE FINANCING, THE COMPETITIVE PLAYING FIELD IS NOT LEVEL. FINANCING, BY LEASE PURCHASE, IS INAPPROPRIATELY BEING COMPARED TO DIRECT FEDERAL CONSTRUCTION, WHEN THE CORRECT COMPARISON SHOULD BE WITH THE

COSTS OF LONG-TERM LEASING.

SINCE 1990. OFFICIALS FROM GSA HAVE TESTIFIED ON NUMEROUS OCCASIONS REGARDING THE NEED TO REEXAMINE THE WAY THE AGENCY, INDEED THE FEDERAL GOVERNMENT, FINANCES REAL ESTATE TRANSACTIONS. GAO HAS TESTIFIED THAT "GSA COULD SAVE BILLIONS OF DOLLARS A YEAR BY INCREASING THE AMOUNT OF FEDERAL OWNED SPACE AND REDUCING LEASED SPACE. ACCORDING TO GAO "CURRENT BUDGET SCOREKEEPING RULES SERVE AS DISINCENTIVES FOR NECESSARY

OWNERSHIP BECAUSE THEY ARE BIASED
IN FAVOR OF OPERATING LEASES AND
DRIVE DECISION MAKERS TOWARD
CONTINUED USE OF COSTLY LEASES." A
1989 GAO REPORT REVIEWED AND
ANALYZED 43 GSA LEASE PROJECTS, AND
NOTED THAT THE 43 LEASE PROJECTS
COST APPROXIMATELY \$12 BILLION
MORE THAN CONSTRUCTION.

H.R. 2680 WOULD PERMIT GSA TO
SCORE LEASE PURCHASES AND TIME
FINANCING ARRANGEMENTS BASED ON
ANNUAL OUTLAYS -- AS OPPOSED TO THE
CURRENT SCORING RULES WHICH FORCE

GSA TO SCORE THESE COSTS UP FRONT.
H.R. 2680 WOULD CHANGE THE SCORING
RULES ONLY FOR REAL ESTATE, AND
WOULD APPLY EXCLUSIVELY TO THE
GENERAL SERVICES ADMINISTRATION.

THIS KIND OF WASTEFUL SPENDING
SHOULD NOT AND CANNOT CONTINUE.
LAST WEEK I RECOMMENDED TO THE
SUBCOMMITTEE ON PUBLIC BUILDINGS
AND GROUNDS THAT WE NOT
AUTHORIZE ANY LEASES FOR FISCAL
YEAR 1995. THE SUBCOMMITTEE
MEMBERS HAVE BEEN CONFRONTED
WITH LESS THAN BEST, OR EVEN SECOND

BEST FINANCING ALTERNATIVES. THIS YEAR'S LEASING PACKAGE BRINGS WITH IT A PRICE TAG OF ALMOST \$2.2 BILLION DOLLARS. THIS IS MORE THAN A BILLION DOLLAR INCREASE SINCE 1988'S LEVEL. IN TODAY'S BUDGET CLIMATE, WITH COMPETING INTERESTS RANGING FROM HEALTH CARE TO SPACE EXPLORATION, IT IS UNREASONABLE FOR THIS SUBCOMMITTEE TO AUTHORIZE SUCH A HUGE EXPENDITURE, WHEN MORE EFFICIENT METHODS OF MEETING FEDERAL OFFICE SPACE NEEDS ARE AVAILABLE. THEREFORE, I HAVE DECIDED NOT TO

TAKE ACTION ON THESE LEASE
PROSPECTUSES. I STATED EARLY IN MY
CHAIRMANSHIP THAT I WOULD NOT
CONTINUE TO "RUBBER STAMP"
REQUESTS FOR LEASE SPENDING
BECAUSE CONGRESS HAD BEEN
STRIPPED OF ITS ABILITY TO EVALUATE
A FULL RANGE OF FUNDING
STRATEGIES. I CONTINUE TO BELIEVE
THAT THERE IS A BETTER WAY TO
FINANCE REAL ESTATE. VARIOUS GAO
EMPIRICAL STUDIES SUPPORT OUR
POSITION AND RE-ENFORCE MY
DECISION NOT TO ACT ON THE LEASING
PACKAGE OF PROSPECTUSES.

MR. CHAIRMAN, AND MEMBERS OF THE SUBCOMMITTEE, THIS LEGISLATION DOES NOT MANDATE SPENDING, IT DOES NOT MANDATE USE OF LEASE PURCHASE. THE LEGISLATION MERELY RESTORES TO GSA THE AUTHORITY TO PROPOSE THIS FINANCING STRATEGY TO CONGRESS FOR CONSIDERATION AND COMPARISON WITH OTHER FINANCING STRATEGIES.

CHAIRMAN CONYERS, THANK YOU AGAIN FOR HOLDING THIS HEARING ON H.R. 2680.

I URGE YOU SUPPORT FOR THIS
WORTHWHILE COST-EFFECTIVE
LEGISLATION.

Mr. CONYERS. Thank you both for bringing this matter to our attention. We are going to look at it.

Let me go back to Tom Lewis, though, before we get into your proposition, because Tom wants to take civil service retirement and trust fund off-budget. That is your contribution to this idea session that we have been having here. Where we have had ideas about a 10 percent tax directive. We have heard Henry Waxman's emphasis on health care, the Medicare/Medicaid problems and how they are impacting on our budgetary problems, leading us to the subject of health reform if to ease part of the entitlement pressures off us.

But, Mr. Lewis, what I am worried about is that if we move in your direction, taking a trust fund, which has a surplus and contributes to a lower Federal deficit, off budget, we will make our present deficit worse, wouldn't we?

Mr. LEWIS. According to the way that CBO scores, that is correct, Mr. Chairman. But that is also phony. Shouldn't we tell the taxpayers of this country what the actual deficit really is? It doesn't cost any money to make this change. It would be a reduction of approximately \$5 billion in the deficit.

There is confusion, as I mentioned in my opening statement, between the way the CBO scores and the way that OPM scores. And there is a big difference in the numbers.

Mr. CONYERS. Well, let's take a look at it this way, Tom. Suppose we look at the civil service retirement as a Federal workers only program, but Social Security involves everybody. And so we are talking about a retirement program that is unique to Federal workers. We want to be careful about in this, because taking it off-budget, insulating it from deficit reduction pressure, and placing civil service retirement on equal footing with Social Security, is really running a kind of a favoritism to the Federal retirement system, would you concede that?

Mr. LEWIS. Well, yes and no, Mr. Chairman.

We are showing favoritism to the Social Security recipients. We have to take into consideration that the Federal retirees, there are many of them that don't have much more in retirement income than the Social Security folks. The majority of Federal retirees are not big pension getters. They are in a sense the same as Social Security and sometimes they are receiving both Social Security and Federal moneys as well.

And every time that we are looking for cost savings on the deficit, we say we are going to take care of Social Security, and I have no problem with that, but immediately we say, the Federal retirees are going to take the hit.

Now, why should these people that are receiving the same amount of money per annum as the Social Security recipients take the hit? I realize there are a few people that get very good Federal retirement pensions, but the majority of them are not much better than anybody else's.

Mr. CONYERS. Let me recognize Al McCandless for a comment or two.

Mr. MCCANDLESS. Tom, let me go back and walk you through a couple of things here. I am not in total disagreement with what you are trying to do. The retirement fund is made up of three areas. We have the employer, or Federal Government contribution. We

have the employee contribution. Then we decide at the end of a given period, well, we have this amount of money now from these contributions, but we have this payout obligation.

To date the two have not matched. Which means then the Federal Government pays the difference from the general fund. It isn't paid by either the employer or the employee, other than the employer is the Federal Government. Am I on the right track?

Mr. LEWIS. You are on the right track.

Mr. MCCANDLESS. With respect to Social Security, the employer and employee make up the total payment except for what the Federal Government has been generous enough to contribute to the administration of the program, through HHS.

This is not a popular comment, but I think we need to talk about it. The Social Security program got in trouble because the employer/employee contributions did not keep up with the benefits being given by the Federal Government, the increases in COLAs and the expanded program. And you and I saw that in 1983.

So why don't we bring this into balance by simply saying what goes in and what comes out has to equal, and that we take the Federal Government out of the program of subsidizing directly, separate from the withholding aspect of it, the amount of money necessary to pay the retirement programs?

Last year we contributed \$20 billion to this program over and above what the employee and the Federal Government as the employer contributed.

Mr. LEWIS. Well, that is not much different than the private sector who insures their pension fund and allows the pension fund to make the adjustments for the rate of increase in inflation. The only way we can do that in the Federal pension is to make the direct contribution.

Mr. MCCANDLESS. But that is the problem, as I see it.

Mr. LEWIS. And if I may, then with the Social Security, we allow them to have the COLA, which keeps them basically in line with the private sector pensions.

Mr. MCCANDLESS. But Social Security COLAs are based upon the fact that they are taken from the trust fund, paid into by the employer and the employee, and are not a result of an additional subsidy or any kind of subsidy on the part of the Federal Government to the direct fund operation and activity.

Mr. LEWIS. Well, my staff came up with these numbers. In 1993 we had \$37.37 billion contributions and we only paid \$34.665 billion.

Mr. MCCANDLESS. What year was that?

Mr. LEWIS. 1993.

Mr. MCCANDLESS. That is somewhat contrary to the information we have.

Mr. LEWIS. That depends on who does this.

Mr. MCCANDLESS. I am not disagreeing with the gentleman. My understanding was that there was this third contribution depending on how much was needed to balance the books. This refutes that.

Mr. LEWIS. Well, that is a problem.

Mr. MCCANDLESS. Philosophically I couldn't agree with you more with respect to these trust funds, including Mr. Mineta's favorite

trust fund, the airports and facilities trust fund. He has a special interest in that, and the highway trust fund and all those items under his control, custody and so forth.

Mr. LEWIS. But anyway, Mr. McCandless and Mr. Chairman, I do ask you to have the staff of the subcommittee look at this. There is a difference between the way it is scored between OPM and CBO. That shouldn't surprise us.

But it is a gargantuan difference in numbers that they bring forward. In fact, in one CBO says that we are costing the taxpayers dollars by doing this. OPM says no, we are saving \$5 billion in deficit reduction.

I have a set of numbers here, and you say they are different from yours, and I will make this available to you as well.

Mr. MCCANDLESS. I think the better off we are with our budgetary process, the better we will be able to separate out those programs that are specific for our purpose. Then we know what we have in the way of a general fund rather than all of this, for lack of a better word, Mickey Mouse bookkeeping.

If we ever got involved in the generally accepted accounting practices in this country as far as the Federal Government is concerned, that is the first step we should take to finally straighten this thing out. But we have been used to doing this now for 200 years and we are not about to change, I guess.

I appreciate you coming by and sharing your thoughts with us.

Mr. LEWIS. Thank you. Thank you again, Mr. Chairman. I do hope your staff will look at this. I think it is important that the Federal retiree get a fair shake in his retirement. I know Federal retirees I have talked to and I think that it is highly unfair that they are the first ones hit or hurt when we cut their COLAs.

Mr. CONYERS. We are glad you opened this subject up, because it is a unique proposal, but it has got some merit in it. We are going to look at it very carefully.

Thanks for coming and staying with us as long as you have.

Mr. LEWIS. Thank you for the time, Mr. Chairman.

Mr. CONYERS. Let me turn toward my two friends here, one of whom is a distinguished chairman of a great committee here, Norm, what I am looking at in your proposal, and Jim has put it forward to me informally more than once, is that maybe at least three other committee chairmen are looking for as a way to turn leasing into a great opportunity for increasing the scope and size of their activities in their committee.

It is like buying a car. If it is only \$200 a month, the fact that it is a Lincoln and it is going to cost a lot over the long run may obscure the fact you really spent \$50,000 for that car. You are committed then and there. And leasing has this same kind of misleading quality. If we are to change the scoring method and overturn OMB, which I don't mind doing because OMB is just another agency that we have created, as a matter of fact, out of this committee, what would be the consequences.

What about the 1921 Anti-Deficiency Act, and what about article 1 of the Constitution? What I am saying here is that unless we put all of this money up front, leasing will become not just a wave of the future for the Public Works Committee other committees as well. What am I going to tell the chairman of Armed Services when

they find out that you talked me into this and they are saying, well, look, the same real estate logic applies to other long-term expensive purchases.

And what about the fact that leasing may not always be the best way to acquire? I know you are caught between buying outright and leasing. But that is just the way it goes. Congress always has to make choices. In your Atlanta example, which I am going to look into, it may be that there may have been a mistake made in which way to go in this particular instance. We are looking at a lot of GSA's transactions from the point of view of them being imperfect.

But I think you have to recognize that the leasing concept is going to go way beyond the application that you would have intended for buildings alone. I can't see how I can argue that other kinds of expensive long-term purchases would be any less applicable to the leasing theory and the scoring concept that you would ask us to modify.

Mr. MINETA. First of all, Mr. Chairman, if I might respond, you are absolutely right. The real estate logic may not be applicable to every other instance. Maybe we can't use the real estate logic to say, yes, we are going to build an aegis or a carrier on the basis of lease/purchase.

So the fact that lease/purchase is applicable to a real estate situation does not mean that, yes, we can use that real estate logic to apply over here.

Second, that \$200 month lease of the Lincoln, right now under these scorekeeping rules, we have to take that \$50,000 and put it up front. And so when you say leasing may not always be the best answer, you are right.

But right now we are even precluded from looking at lease/purchase as an option, because if we have \$100 million building and we are going to pay for this at \$10 million a year over a 10-year period, the owner is willing to pay our costs of moving into the building from where we are right now, he is going to be willing to pay the phone costs, the computer costs, all of that, first year free rent, all of this, and we say, gee, thanks a million, but we can't do it, because that \$10 million a year lease for 10 years, we have got to score keep it as \$100 million the first year.

Now, does that make any sense? Even if it made sense from a financial perspective, we are precluded from even looking at that as an option. And right now there are needs that exist for the Federal Government. We are in leased spaces. We could move over here and buy a building under a lease/purchase. But we are not able to do that, because if you have only got, let's say, a cap, and we have caps all over the budget now, there is no wiggle room for us to even be able to come up with the \$120 million we may need the first year for scorekeeping purposes to say, yes, here is a real good building, and we ought to be able to go ahead and negotiate with the owner on a lease/purchase.

GSA is precluded from doing that because we know it is going to be impossible for us to come up with \$120 million up front for scorekeeping purposes. And so recently we had a subcommittee meeting in which we had requests from Members and from agencies for leases. And I believe the total was about \$2 billion, \$3.4

billion in leases. And we said, hey, hold it. Let's stop this mockery right now. Let's deal with the real problem.

And the real problem is scorekeeping because we have leases in there that maybe we ought not go ahead with the leases because there are other ways of dealing with them. And we know that—

Mr. CONYERS. I see what you are saying. But we have got two problems here. One is the scorekeeping problem, which you have some objection to. The other is the administrative decision to purchase or to lease, which is another valid consideration. There are times when one is better than the other. But GSA isn't precluded from lease purchasing.

Mr. MINETA. Mr. Chairman, you are the chairman of a very great committee here. I happen to have the privilege of chairing a great committee. And as Members of Congress, I think it is our responsibility to make that decision you just mentioned, not some bureaucrat down at OMB, unelected.

Mr. CONYERS. To buy or lease?

Mr. MINETA. Absolutely. Absolutely.

Mr. CONYERS. That is going to give you a lot of weekend duty, because GSA is the landlord for an awful lot of property.

Mr. MINETA. Mr. Chairman, we had it before 1990, and I chaired the Subcommittee on Public Buildings and Grounds in my second term in Congress, and I went up to Juneau, I went down to Huntsville, I have been all over this country looking at facilities that are needed. I went at the request of Mayor Coleman Young, excuse me, but I did go up there to look at some things in Detroit, which I did, which are now in ground. I did those on construction, because we were able to—we decided that in those instances, we had to do construction rather than lease or lease/purchase.

But at least in those days we had the option of looking at what are our alternatives. In the \$1.2 million building, go ahead and do it on the lease. But I will tell you, at some point, there are scales, the economies of scale where we really ought to be looking at these options, but we are precluded from looking at those options.

Mr. CONYERS. Would it be fair to say that you can take the options, but they come at a high price of scoring? I mean, in other words, nobody is being—you are not telling GSA and GSA dare not tell you that we can't buy this outright or that we can't lease this.

The question is when is it more prudent to do one versus the other at the scoring price that you have got to pay?

And that is really what you are trying to get at.

Mr. MINETA. I think any time we have leases probably in excess of term of \$50 million, we don't even get to make the decision. We have a 10-year lease, \$5 million a year, we don't even have a chance to say, hey, should we take a look at that as an option because we know from a budgetary perspective.

And again, if the ceiling is, let's say, \$1 billion, and it is never that high, but whatever the ceiling, it seems to me we ought to be able to have the option of what we are going to do over a 5-year capital improvement program as to what are we going to purchase, what are we going to lease.

You know, we have got to have that kind of ability to have a good mix of straight leases, lease/purchase, and construction. But

right now we are excluded from even looking, because of the scorekeeping issue.

It is just a practical——

Mr. CONYERS. Nobody can stop the Committee on Public Works from oversighting GSA. That is very modest for you to say that, but I don't believe anybody over in GSA thinks that you are precluded.

Mr. MINETA. That is right. Here is a person who actively does oversight work because we—as chair of the full committee, I look to the subcommittee chairs to say, how are you making sure that the agencies that are within your jurisdiction are towing the mark?

Mr. CONYERS. Well, Jim, you have been handcuffed in that chairmanship job in subcommittee for so long. It is awful the way those GSA people push you around. By God, we are not going to let them do that to you anymore. This is outrageous. I didn't think anybody could do this to my favorite sheriff from Ohio.

Mr. TRAFICANT. Mr. Chairman, you can only provide oversight pursuant to the law that Congress has directed. And the law that Congress has enforced really makes it impossible to make those decisions.

I don't think anyone wants to micromanage decisions GSA must make. We are saying when we see those decisions predicated on the law of the land are not in the best interests of the taxpayers, we must act.

Our committee did the only thing we could do, our subcommittee. We would not authorize the lease. They are now figuring out how to go forward, because one-third of the cost of those leases can be saved with a different direction. So we did not authorize the leases.

But I want to offer two things that the chairman had offered to you for your consideration. Real estate is different than an aircraft carrier or submarine. As soon as that Lincoln or as soon as that aircraft carrier hits either the street or the water, they start depreciating. We are talking about fixed value in real estate.

In addition to that, we have a Federal building fund where monies go in on a revolving basis. There is an applicable management apparatus charged to the Congress of the United States to make sure it is done properly. What the Congress has done, worried about the deficits, is gone ahead and passed a law, made a change in scoring that makes deficits look good now, but kills us and drowns us in red ink in the outyears.

So what we are saying is this hypocrisy of making a favorable impression on the deficit now is not in the best interests of the Congress and we cannot provide oversight. We cannot help the taxpayers. We cannot do that which the Congress tells us we can't do.

So we are recommending to the Congress that there has been a mistake and there needs to be a change in policy.

Mr. CONYERS. Should we repeal the budget provision?

Mr. TRAFICANT. No. But remember, we are asking that we just go back to scorekeeping rules in effect before 1990.

Mr. CONYERS. That is what I mean. Should we——

Mr. TRAFICANT. Only on scorekeeping.

Mr. CONYERS. Should we change that? That would be, I believe——

Mr. TRAFICANT. Just for the real estate.

Just for scorekeeping, for real estate activities, as it affects the General Service Administration for specific costs as referenced by the Federal building fund and the fixed versus depreciating value problem.

Mr. CONYERS. That is awfully tempting. It sounds real good. And you know, what I want to do is enlarge upon this part of our hearing, because I think it deserves more attention.

And so what we are trying to do is, let's look at this together, and what I am thinking, and it had not been brought to my attention before, is that we might want to do a hearing in a little bit more depth on this subject, because this real state exception would be carving a big hole into a budget rule. I want to make sure that we are looking at all the implications, so that it fits into our budget reform hearing today, but it also fits into our oversight of GSA, which is one of your major government sources of jurisdiction.

So we are going to begin to look at it a little bit more deeply based on your comments here today.

Mr. MINETA. Mr. Chairman, if I might, just very quickly.

Mr. CONYERS. And then I will yield to Al McCandless.

Mr. MINETA. I hope my colleague from California won't mind my taking a minute here. H.R. 2680 has been reported out by the Subcommittee on Legislation. You have sequential referral until some date certain.

Mr. CONYERS. August 12.

Mr. MINETA. So to that extent, I would hope we would be able to report something out by that time.

Mr. CONYERS. Between August 2 and August 12 opens up a whole new universe for me to give attention to these important matters.

Mr. MINETA. I am hoping during the week of the 15th we might be able to take it to the floor on suspension.

Mr. CONYERS. There is nothing like optimism in this business, Mr. Chairman. You know, without it, where would we be?

Al McCandless.

Mr. MCCANDLESS. Thank you, Mr. Chairman. I am reminiscing a bit about my former life when I leased trucks and cars and tractors and whatever else had wheels. And the main reason for the leasing was that the capital was not there to buy all of the equipment necessary to function as a farm or as a packing shed or whatever.

So what you had then was a cost of doing business which meant that at the end of the month, the four trucks you had leased was like the telephone bill or the power bill, and the government paid for the lease by and large.

It freed up your money then to operate. What we are saying there is, OK, we are going to lease this \$1 million building. If you score it now, you have to show it as a purchase to begin with, even though you are going to lease it for whatever length of time. I don't see that as being an acceptable kind of thing because a lease is a lease, irrespective of what takes place.

So I am wondering, the background behind how this came about how the change came about to begin with, other than as maybe a way by which to put the brakes on an overzealous program of leasing virtually everything that came down the pike.

Is there some background here you can share with me?

Mr. TRAFICANT. Mr. Chairman, first of all, in the leasing, if it was a lease/purchase, you would have to score the entire project and its entire cost up front the first year. So lease/purchase is no option. The only option you have is the lease when I look at the up-front scoring costs.

What we are saying is, there are times when a lease/purchase agreement is in the best interests.

Mr. MCCANDLESS. So the key word is lease/purchase rather than just lease.

Mr. TRAFICANT. Right. We want that option. We want to give whatever option is available.

Mr. MCCANDLESS. You have the option at the end of 10 years to buy it. You have to score it up front if it were a lease/purchase.

Mr. MINETA. In my statement I had used the phrase it is the classic case of the law of unintended consequences.

Part of the reason this occurred in 1990 was because there was some thought of maybe the possibility of the Department of Defense going to leasing, an aegis, an aircraft carrier, a battleship, whatever. Then people said, hold it, we don't want to do that. So let's do this.

So in 1990, the law was changed. As it relates to the Budget Act—

Mr. MCCANDLESS. To preclude this from—

Mr. MINETA. It wasn't directed at GSA at the time, but it is one of those, again, of cases of unintended consequences. And so as they tried to block this program here, so let's do this, then it hit everybody else like this.

Mr. MCCANDLESS. I knew in our infinite wisdom we had some reason for doing it.

Mr. MINETA. It was not much wisdom, and it has been infinite in the sense that the consequences is what we are having to pay for.

Mr. MCCANDLESS. Essentially, the elements of a lease is that if the money is too high, you are not going to be able to lease something. Then the cost of construction, the cost of maintenance, you have got to take kind of a consequential item at all, you have the cost of administration. The person who has put all this together, including finding a lessee, is looking for a little profit, which is old fashioned, I know, but I am still kind of profit oriented.

And then you have a residual value. If the lease is going to be 25 years, I would say you are better off not to try to gamble on the fact that the real estate is going to appreciate in that 25 years, because we have gone through some rather traumatic experiences here in recent times that have demonstrated this is not necessarily true. If there is any question about it, the savings and loan program would point that out to you.

In your reviewing these leases, are you given breakdowns as to how they arrive at what the cost of the money is going to be? It is not within the field of improbability that some guy pads a little bit here, pads a little bit there, then goes down to the banker and says, hey, I have got the Federal Government really going on this. I have got a 25-year lease, and the banker says, I have got it made on this loan, I will give him x percent. He comes back and says,

OK, it is x plus 7 percent in a formula, and we end up as the Federal Government paying another bonus over and above what his percentage of profit is.

Do our people look at these things that way?

Mr. TRAFICANT. Yes, they do, very detailed, and they submit that in their lease packages. But again, their driven only by the first-year scoring on the project.

Mr. MCCANDLESS. I understand the scoring part. But now you have got me interested in the program.

Mr. MINETA. That building may not be standing in 25 years, but the U.S. Federal Government and its responsibilities are still going to be there. And just as in your case of that vehicle, at least we are going to be able to have ownership at the end of the lease/purchase period. Right now we are doing it. We are leasing. We are leasing for 10 years, 20 years, 30 years. But what do we have at the end of that 30-year period but a bunch of rental receipts?

We don't have one iota of ownership. But at least when you were leasing that Cadillac or whatever it was, as you were doing selling and leasing, at least the customer you had had ownership at the end of that lease period.

Mr. MCCANDLESS. If they wanted to exercise it.

Mr. MINETA. Right. We don't even get to exercise that as an option right now.

Mr. MCCANDLESS. I understand where you are coming from. I appreciate the time you have spent going over this with the committee. I am not quite sure where our chairman is.

I am in charge.

Mr. MINETA. Our father.

Mr. TRAFICANT. We are glad to be here with you, Mr. Chairman.

One last thing, Mr. Chairman. In 1975 GSA lease costs were \$388 million. In 1995 what we will not authorize is \$3.38 billion. They were again signing up and extending those leases because there was no place to go if they didn't have that lease and under scorekeeping, there could be no equity.

Mr. MCCANDLESS. The second go round, if you negotiate it properly, is the best of the best worlds. The first go round you are paying for the second one. You are getting the benefit of the first one. So I couldn't agree with you more. Thank you both, and those who have advised you in the back there, by whispering in your ears.

Mr. TRAFICANT. Thank you, Mr. Chairman.

Mr. MCCANDLESS. The subcommittee is adjourned.

[Whereupon, at 1:30 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

APPENDIX

MATERIAL SUBMITTED FOR THE HEARING RECORD

CAROLYN B. MALONEY
14TH DISTRICT, NEW YORK
COMMITTEE ON BANKING, FINANCE
AND URBAN AFFAIRS

COMMITTEE ON
GOVERNMENT OPERATIONS

CONGRESSIONAL CAUCUS
ON WOMEN'S ISSUES
EXECUTIVE COMMITTEE

CONGRESSIONAL ARTS CAUCUS
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Rep. Carolyn B. Maloney -- Opening Statement

Hearing on Budget Process Reform -- August 4, 1994

Thank you Mr. Chairman.

I would like to commend you for holding this hearing, our second on budget process reform. In my view, the Federal deficit remains one of the most critical problems facing our nation. The discussions we have had in this committee provide a good record for addressing some of the institutional processes which must be addressed if Congress is to confront the problem at a systemic level.

Just last month the House passed a strong version of expedited rescission legislation which would provide the President with more authority to cut wasteful spending, while protecting the prerogatives and power of the legislative branch. I urge the other body to pass this measure as well so we can send it to the President for signature.

During today's hearing I will listen with particular attention to the ideas presented to deal with so-called "emergency spending" authority. I believe that these emergency supplemental appropriation bills have all too often in the past been loaded down with extraneous spending. This practice must end and I am glad it is being discussed here today.

Thank Mr. Chairman.

PRINTED ON RECYCLED PAPER

STATEMENT OF
REPRESENTATIVE KAREN L. THURMAN
before
THE SUBCOMMITTEE ON LEGISLATION AND NATIONAL SECURITY

August 4, 1994

Mr. Chairman, I appreciate the opportunity to discuss H.R. 1056, legislation to place the Civil Service Retirement Fund off-budget. I am a cosponsor of Mr. Lewis' bill and I fully support it.

The Federal Government is the largest employer in the United States. The government has a responsibility to ensure the financial security of its retired workers. Since the Social Security Trust Fund was removed from the U.S. budget by provisions in the 1990 Budget Reconciliation Act, the Civil Service Retirement Fund (CSRF) became the largest trust fund to remain in the unified budget. When it was established in 1920, the CSRF was made independent from the Federal budget. But in 1968 President Lyndon Johnson decided to include the fund in the unified budget beginning in Fiscal Year 1969.

The CSRF was never intended to be part of the U.S. budget. It is time that we return the trust fund to its original place. Like the millions of Americans who pay into the Social Security Trust Fund, millions of Federal workers contribute to their own retirement fund and expect it to be there when it is needed.

The trust fund has no effect on the Federal budget or deficit. Critics who point to the unfunded liability problem with the fund fail to take into account that, unlike other business entities, the Federal Government is not going out of business.

The same and successful argument that helped to place the Social Security Trust Fund off-budget applies here: Removing the fund from the budget will make cuts to Federal retirees' annuities less attractive because it will be standing separate from the myriad of other programs in the budget.

Opponents of taking the fund off-budget claim that, if we reinstate CSRF's independent status, then it will be subjected to public criticism and thus be made the easy target of the Congressional budget-cutting ax. The fact is that as long as the CSRF remains on-budget, it will be subjected to intense political pressure because it is included in the budget.

As the Committee continues its investigation of budget process reform, I would once again urge that the Civil Service Retirement Fund be removed from the U.S. budget. As the role of the Federal government becomes redefined and more of Vice President Gore's National Performance Review proposals become a reality, we cannot forget those civil service workers who have served the citizens of this country so ably. Let us give Federal retirees the same protection that Social Security recipients have: Re-establish the Civil Service Retirement Fund's independent trust fund status.



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